THE LGIU GUIDE TO

Local Government Finance

LGIU

The main text for this guide was written by Pete Challis. Lynda Bransbury, David Clark and Martin Lewis wrote the sections on council tax, rates and urban regeneration respectively. The guide was edited by Alan Pickstock. Thanks are due to Jo van den Broek for her careful reading. Nigel Taylor designed the publication which was printed by Calvert's Press. The information was, to the best of our knowledge, correct as of 31 December 1992. Every effort has been taken to ensure the accuracy of this guide, but the LGIU can accept no responsibility for any errors. Finally, the LGIU thanks NALGO for its support in producing this publication.

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THE LGIU GUIDE TO

Local Government Finance

Produced in association with NALGO

LGIU

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Contents

Introduction

For local democracy to survive, local authorities must be more than just agents of Whitehall.

Local government is at a crossroads. Many fear that changes introduced in recent years coupled with others still to come are motivated by a desire to turn local government into an agency to administer policies, practices and budgets that are determined in Whitehall.

The debate about the way local government is financed goes to the very heart of local democracy. It is about the ability of local communities to decide for themselves the nature, level and standards of services that will be provided locally, and to raise the resources to do so.

There is mystery surrounding the financing of local government. Few people understand how the system really works, yet millions are affected by it.

As with many 'technical' subjects, often those who understand its complications are the least able to explain it in simple terms. They are too close to the subject; too concerned that omitting one single detail will give the wrong impression.

There are also those with a vested interest in keeping the system mysterious. It is much easier to shift the blame for high local tax bills if the detail of how those bills are arrived at and how local government gets its money are not fully understood.

This book is intended to give the interested observer a guide through the maze that has become local government finance. By understanding the system, it is hoped that the reader will be able to play a more active part in local democracy. At the very least, having read the book, readers will be better placed to make their own judgements about where the blame lies for the underfunding of local services.

Specific sections are included on Education and Housing finance because of their major significance to the system of local government finance and their overall impact on council spending.

Why councils need money

Councils spend money on local services for their communities.

It is sometimes called being caught between a rock and a hard place. For local councils the rock is the ever tightening straightjacket placed by government on the money they can spend; the hard place is the increasing need their communities have for services and the escalating cost of many of those services.

The services provided by local councils affect everyone's quality of life. Spending on council services provides real and tangible benefits.

Nursery, primary and secondary schools provide the educational foundation for the skills and prosperity of the nation.

Social services in the form of home helps, children's homes, fostering and adoption, residential homes and day centres for people with mental ill health, meals on wheels, community alarms, lunch clubs, day nurseries etc are essential to the quality of millions of people's lives.

Local authority housing departments are crucial in raising standards and quality in accommodation and service provision, in tackling disrepair and meeting housing needs. They still provide the best hope many people have of living in decent accommodation.

Council environmental health officers and trading standards officers protect communities from disease and dangerous goods.

Refuse collection, waste disposal, street sweeping, and pollution control are crucial aspects of a clean and healthy environment.

Police and Fire services provide public protection.

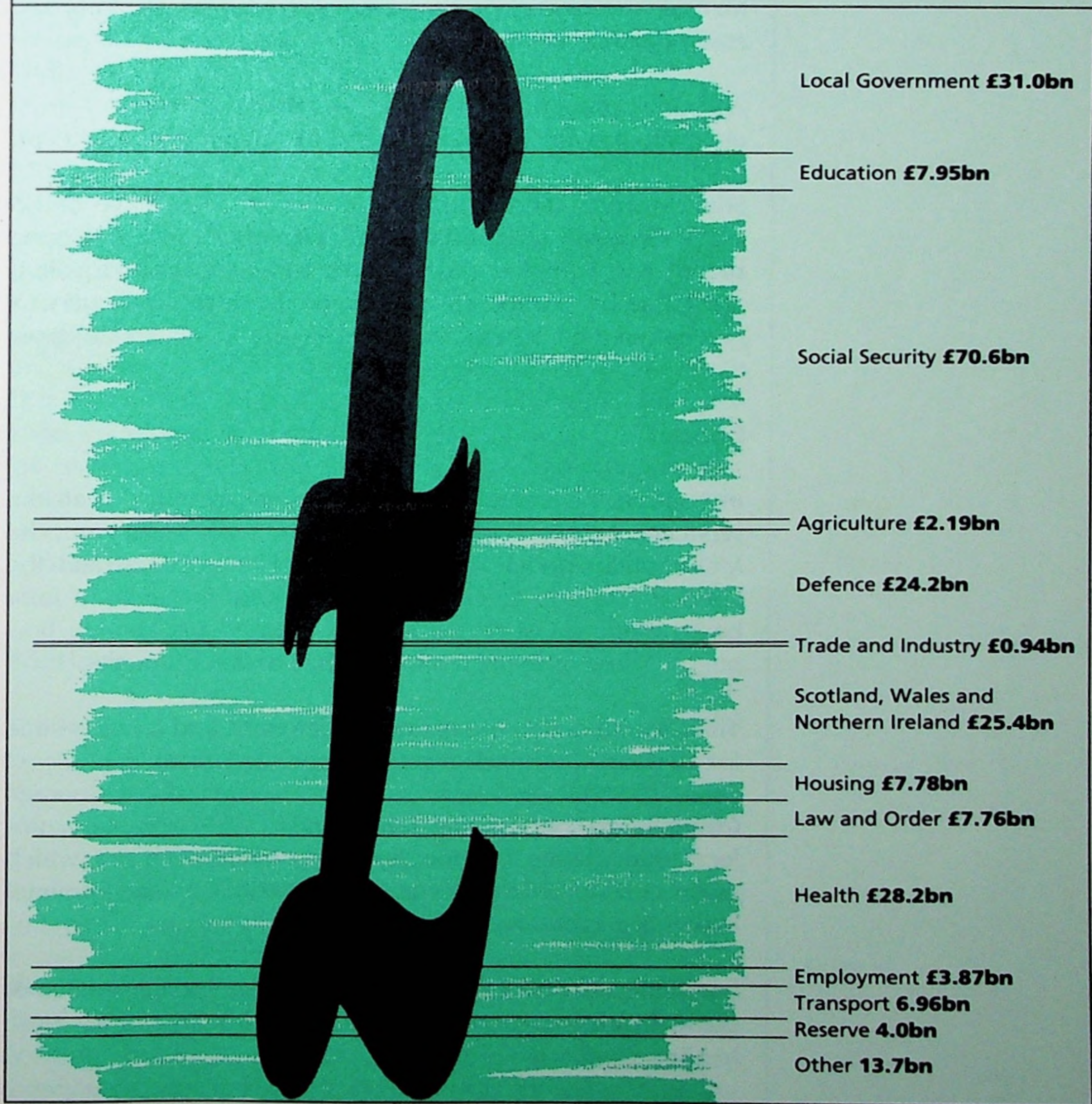
Councils regulate in the interests of the communities they represent through planning and building control.

But to be effective these services need to be determined by local people and run according to local needs. Decisions taken in Whitehall can never truly reflect local needs or local wishes. Perhaps more importantly, they are not subject to any local democratic control. Local people can vote out their council if they wish, they cannot vote out the civil servants who make decisions about their daily lives.

Council services cannot all be paid for locally, and local democracy would be totally undermined if councils simply administered grant from central government.

There needs to be a proper balance between local taxation and the financial provision provided through national taxation. A balance that recognises local government's role in implementing national strategies but which provides local government with the freedom for communities to determine matters themselves.

Council spending in context: public spending 1992/93. TOTAL **£234.6billion**



Which councils do what

Different types of council carry out different functions.

Counties and Districts

County councils are principally responsible for education, social services, strategic planning, public libraries, museums and art galleries, fire and civil defence, police, traffic and transportation, and highways. In certain circumstances they can arrange for a district council to undertake the function on an agency basis.

Districts are principally responsible for collecting local taxes, housing, paying housing benefits, swimming pools, parks and open spaces, arts and leisure facilities, electoral registration, cemeteries and crematoria, registering births, deaths and marriages, refuse collection, markets and fairs, planning and environmental health.

A county council gets some of its money by raising it from the districts within its boundaries. This is known as a precept.

Some districts (and metropolitan districts) also have parish councils within their areas which provide or maintain open spaces and camping sites, village halls, playgrounds, allotments, public walks, war memorials, etc. They raise a precept on the district.

London

In London the borough councils are responsible for all the services except police, fire and civil defence. The Metropolitan police are run by the Home Office and the London Fire and Civil Defence Authority is run by a joint board made up of representatives from all the London boroughs. These raise precepts from the London boroughs.

The City of London has its own police force and is responsible for all council services except fire and civil defence.

Councils in London also fund London-wide voluntary projects through the London Boroughs Grants Scheme which every council contributes to. The contribution each council makes is decided each year.

London is the only capital city in Europe not to have a democratically elected strategic authority.

Metropolitan Districts

In major urban conurbations (the areas in and around Manchester, Leeds, Liverpool, Birmingham, Sheffield, and Newcastle) there are metropolitan district councils which are responsible for all services except police, fire and civil defence. There are joint boards for these services which precept the metropolitan districts.

Transport is provided by passenger transport authorities which charge a levy on the metropolitan districts. The 6 Metropolitan county councils used to run public transport until they were abolished in 1986. The metropolitan county councils were: Greater Manchester; Tyne and Wear; Merseyside; South Yorkshire; West Yorkshire; and, West Midlands.

Wales

County councils in Wales are principally responsible for strategic planning, national park and countryside, traffic and transportation, highways, caravan sites, education, social services, police, fire, public libraries, museums and art galleries.

District councils in Wales are principally responsible for airports, allotments, baths and pools, housing, car parks (off street), markets and fairs, museums and art galleries, parks and open spaces, planning, cemeteries and crematoria, electoral registration, refuse collection and disposal, and environmental health.

Scotland

The Regional and Island councils are principally responsible for strategic planning, industrial promotion, industrial development, roads, public transport, highways lighting, road safety, airports, ferries, harbours, water, flood prevention, coast protection, sewerage, police, fire, education, social services, consumer protection, registration of deaths, births and marriages, electoral registration, and valuation.

The District councils are responsible for local planning, development control, urban redevelopment, industrial development, building control, listed buildings and ancient monuments, conservation areas, tourism, housing, country-

side, nature conservation, caravan sites, war memorials, recreation, parks, museums, libraries, art galleries, community centres, environmental health, refuse collection and disposal, public conveniences, allotments, markets and slaughter-houses, shop hours, burial and cremation, food hygiene standards and labelling, health and safety at work, licensing: liquor, betting and gaming, theatres, cinemas, dogs and taxis, and the employment of young people.

The finance system in context

The government decides how much of the cost of local services must be met from local taxes.

Throughout the 1980s government policy sought to shift the balance of responsibility for paying for local services from central to local taxation. The scale of this shift was dramatic.

While pursuing a policy of reducing income tax, the government, in effect, increased the amount of tax that people had to pay for local services.

Much of the problem lies in the fact that the government funds councils according to what it thinks they should spend. This takes no account of local needs. If the government 'assessment' is unrealistic or if local people want a service that the government does not take into account, every penny has to come from local taxpayers. As a result, local tax bills rise steeply to cover the additional costs (this is know as the *'gearing' effect* and is explained elsewhere in this guide). In other cases, services which have been built up over decades can be wiped out in order to find savings demanded by government.

In 1979/80 local taxation *(domestic and non-domestic rates)* contributed about 40 per cent of the cost of local services with the remaining 60 per cent being met by government.

Ten years later that position had almost been reversed. By 1989/90 the government contribution had fallen to 43 per cent, while local people and businesses were paying approximately 57 per cent of the £31bn spent on local services.

The share of the costs of local services met from local business rates rose rapidly from 22 to 28 per cent between 1979/80 and 1986/87 – a proportion that remained constant until the *poll tax* was introduced in 1991/92 when it increased again to nearly 32 per cent.

Domestic ratepayers' share of the cost of local services rose too – from about 17 per cent in 1979/80 to 28 per cent by the end of the 1980s. The introduction of poll tax increased it even further to 30 per cent. But for the 2.5 per cent increase in VAT which was used to reduce all poll tax bills by £140, it would have been nearly 35 per cent in 1992 according to the government's own figures. This £140 reduction was such a huge shift in financing that it brought the share met by local taxation down to 20 per cent overnight.

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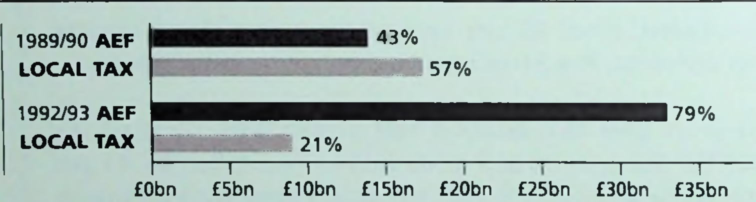
Breakdown of Total Standard Spending between different funding sources (England).

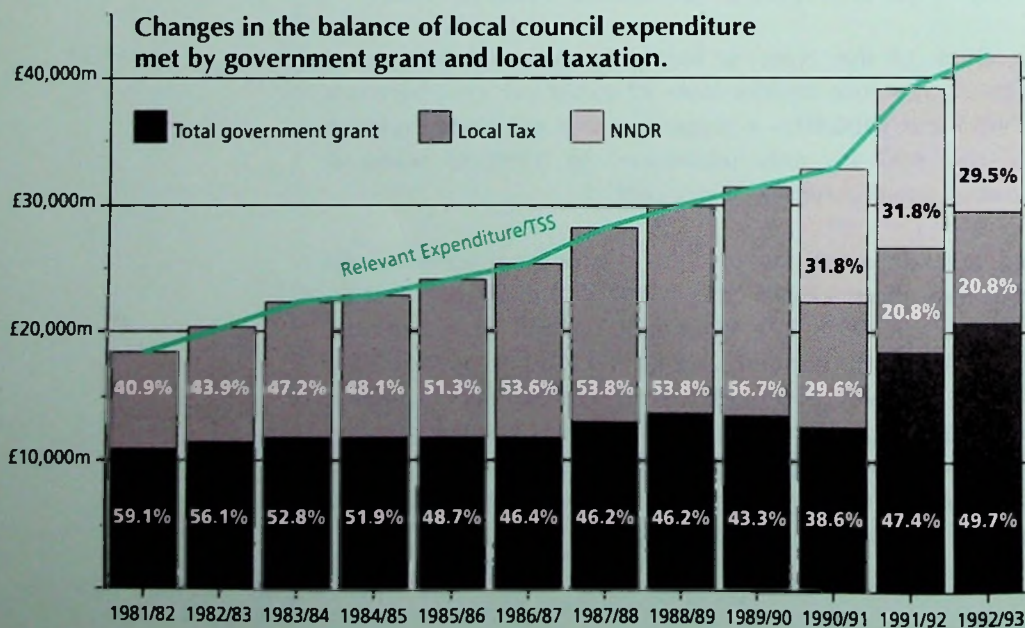
Year	1990/91		1991/92 pre budget		1991/92 post budget		1992/93	
	£bn	%	£bn	%	£bn	%	£bn	%
RSG	9.467	28.86	9.651	24.75	9.651	24.75	16.605	39.72
SG	2.996	9.13	3.414	8.75	3.414	8.75	3.818	9.11
NNDR	10.428	31.79	12.408	31.81	12.408	31.81	12.306	29.44
CCSS	9.909	30.21	13.527	34.68	8.552	21.93	9.082	21.73
CCG	—	—	—	—	4.975	12.76	—	—
TSS	**32.800**	**100.00**	**39.000**	**100.00**	**39.000**	**100.00**	**41.811**	**100.00**

RSG: Revenue Support Grant.
SG: Specific Grants.
NNDR: National Non-Domestic Rate.
CCSS: Community Charge (Poll Tax) for Standard Spending.
CCG: Community Charge Grant (to pay for the £140 reduction).
TSS: Total Standard Spending.
AEF: Aggregate External Finance.

Balance of central/ local funding.



Changes in the balance of local council expenditure met by government grant and local taxation.



The changing face of local government

Central government imposed changes to councils have had an impact on how much money they need.

There have been major changes in the functions undertaken by local councils. Over 140 Acts of Parliament have been passed since 1979 that directly affect the work of local government. Councils have taken over functions that were previously undertaken by central government departments, and have been given new responsibilities.

Two examples illustrate this: local government is now responsible for assessing and paying *housing benefits;* and, from 1 April 1993, as well as assessing residential care needs it will be responsible (subject to means tests) for paying for them.

Local authorities believe that they have not been allowed to have the additional resources necessary to undertake these functions.

When the transfer of housing benefit took place councils received numerous assurances that costs would be met centrally, but gradually the cost of providing this service has been shifted from national to local taxation.

The Community Care changes that take place in 1993/94 have been underfunded by over £200m. Yet councils will still have a statutory duty to provide this service, so either other services must be cut or local taxpayers will have to meet the difference.

Other new responsibilities such as those under the Environment Protection Act have been given to councils without the resources necessary to carry out these responsibilities.

At the same time powers and responsibilities have been taken away.

The involvement of democratically elected representatives in decisions about health care needs has been abolished. Health authorities are no longer accountable to the communities they serve and directly elected representatives have been removed and replaced with appointees. Transport provision is no longer a matter for local government. Councils' influence over polytechnics has been removed, and they now have little strategic influence in ensuring the training needs of communities are met.

housing benefits p77

Further Education will be handed over to a central government agency from 1 April 1993, even though local authorities will be left with the responsibility of paying the debt charges on the buildings. Primary and secondary education in some parts of the country will be administered by appointees from Whitehall who will be responsible for the planning of educational provision. The proposals for the Funding Agency for Schools have no mechanism for accountability to the local communities served by the schools. Democratically elected representatives will play no part in its work.

Changes in local taxation

After years without change, the system of local taxation has been changed twice in four years.

Until 1 April 1990 there were two elements of local taxation that provided part of a council's income. Local businesses paid the *'non-domestic rate'* on business premises while individuals paid the *'domestic rate'* on their homes.

Poll tax was introduced in Scotland on 1 April 1989 and in England and Wales a year later. It was a personal not a property tax and replaced the 'domestic rate'. At the same time 'non-domestic rates' were nationalised and became the National Non-Domestic Rate. How much businesses paid was determined by central not local government.

Poll Tax was replaced by the *council tax* from 1 April 1993.

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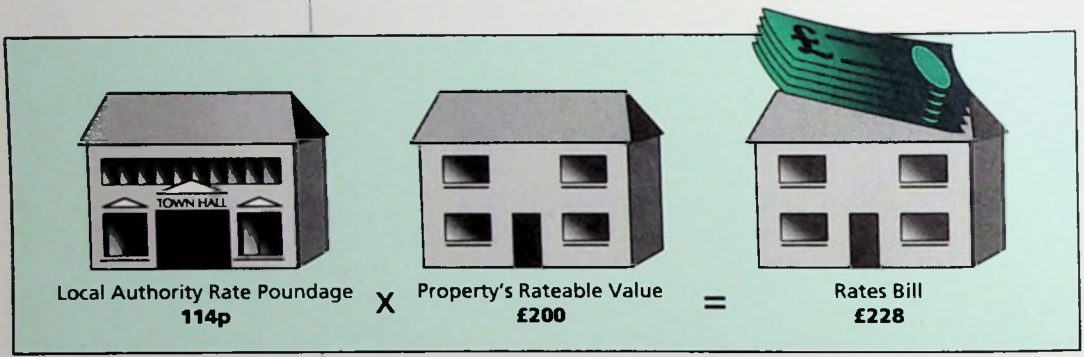
Rates

Rates were a property based tax – set, collected and spent locally.

Prior to the reforms of the late eighties and early nineties, local taxation had remained largely unchanged from the seventeenth century. The system was known as the rates and was a property based tax, charged on virtually all properties in the United Kingdom.

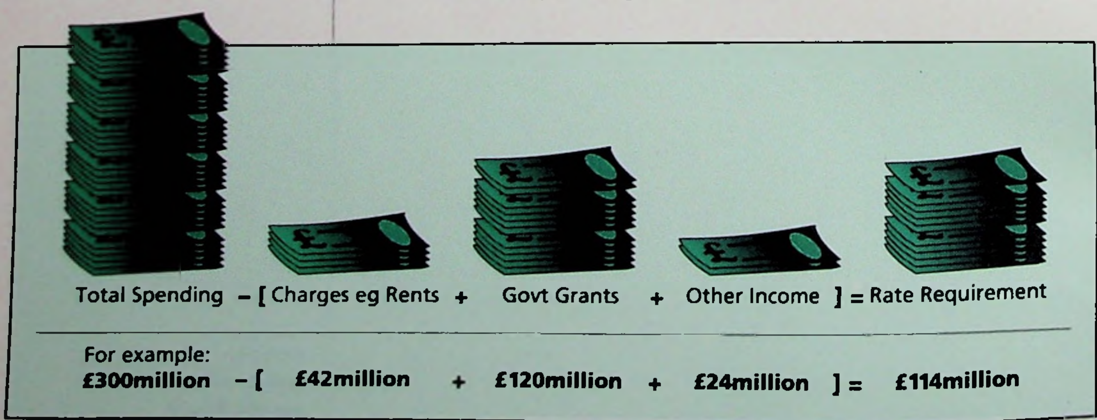
Each property was allocated a rateable value by the Inland Revenue, which is independent of the local authority. This value was based on a notional rental value of each property but broadly did reflect differences in property values.

Each local authority set a rate (or precept as it was known for County Councils) which was expressed as a number of pence in the pound. This figure was known as a rate poundage. The tax to be levied on each property per year was calculated by multiplying rateable value by rate poundage.

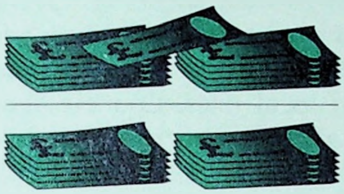


Rates were payable on both domestic and non-domestic properties. This meant that the local tax base provided a very significant part of a council's income.

Each council worked out how much it needed to raise from the rates by subtracting its anticipated income (other than rates) from its spending requirement.



Councils then divided their rate requirement by the total rateable value of all the properties in their area and this gave them their rate poundage.



$$\frac{\text{Rate Requirement}}{\text{Rateable Value}} = \frac{\textbf{£114 million}}{\textbf{£100 million}} = \textbf{114p in the pound}$$

The key factors that determined the level of local rates were spending decisions and income from other sources. Of these other sources the grants received from central government were by far the most significant.

Grants

In the final years of the rating system there were three main types of grants paid to local authorities:

- *housing subsidy;*
- *specific grants;* and, most importantly,
- *block grant.*

Block grant provided the main support for spending on local authority direct service provision.

It was apportioned to local authorities after an assessment had been made of each council's needs. This was done using a formula known as a grant related expenditure assessment (GREA). This system was meant to iron out differences between rich and poor areas. In theory it aimed to equalise income so that any two authorities could provide a standard level of service without over taxing their own populations.

Throughout its entire life (the block grant system was introduced in 1981/2) block grant was used not just as a means by which central funding could support local services but also as a means by which central government could control the spending of councils.

housing subsidy p72
specific grants p31
block grant (glossary) p89

Over the final decade of rating many variations were made both to the overall levels of grant received by local government and to the system of grant distribution. In each case an overall trend emerged.

The government wished to cut its own spending. Overall, grant made up 66.5 per cent of local spending in England in 1975/6. By 1989/90 this had dropped to 43.3 per cent. This placed a huge burden on local rates. Councils found that they had to increase local taxes even to maintain existing services.

One consequence of this was that some authorities needed to increase rates substantially to offer the services that their electorate had voted for. The grant mechanism was then used to punish those authorities that exceeded government spending norms.

This was done in a variety of ways over the years but basically councils lost grant if they exceeded government guidelines. This had the effect of fuelling rate rises as councils needed to raise the money both to pay for services and to cover the loss of grant.

As more and more grant was withdrawn and rates bills rose to cover the loss, the point was eventually reached where some councils lost entitlement to block grant entirely.

The government's response was a take new powers to intervene. The 1984 Rates Act gave it the power to *'cap'* (put a ceiling on) a council's expenditure and, after some further legislative tuning, the Secretary of State could effectively dictate the actual rates bills people received.

The rating system had survived for centuries but as it bore an increasing share of the cost of local service provision it became more vulnerable and came under attack. Several unsuccessful attempts were made to reform local government finance in the late seventies and early eighties. The outcry following the eventual revaluation in Scotland in 1987 became the justification for the Conservative pledge to abolish the rates and the subsequent introduction of the poll tax.

capping p40

Poll tax

The ill-fated poll tax had to be paid by nearly everyone and took no account of people's ability to pay.

In 1990 the government radically changed the system of local government finance in England and Wales. Domestic rates were replaced by the poll tax (it was introduced a year earlier in Scotland) and non-domestic rates were nationalised and became a central tax on business.

Most of the changes made to the system when poll tax was introduced remain in place for *council tax*.

Poll tax was a tax on people. In each council area poll tax created a flat rate tax which took no account of ability to pay. Some people, such as prisoners, people in residential care homes, and those who were severely mentally impaired were exempt. Everyone else had to pay at least 20 per cent.

In order to introduce this change councils had to compile a register of everyone over the age of 18 who was living in their area. As it was a daily tax, the register had to be kept up to date – a task that proved expensive and difficult – particularly in urban areas.

Average bills of £357 in 1990 were much higher than people expected. The government had initially talked about a figure of £178, which had subsequently been revised to £278. Collection proved difficult and councils suffered losses in poll tax income and *government grant* as a result.

355 days after the poll tax was introduced in England and Wales the government announced its abolition. Collection still proved difficult. Between 1 April 1990 and 31 December 1991 councils in England had issued 11 million summons for non-payment. This was equivalent to nearly one summons for every three poll tax payers.

Four separate attempts were made to cushion the impact. A scheme called Transitional Relief was intended to restrict the increase in bills. Within 12 months this scheme was improved and then replaced with the Community charge reduction scheme.

Finally a blanket £140 reduction in bills was introduced, after councils had sent out their 1991 bills. This was paid for by a 2.5 per cent increase in VAT.

council tax p22
government grants p28

What happened when the poll tax was introduced?

When the government introduced poll tax it blamed local councils for the fact that bills were higher than expected.

"We know perfectly well that local authority after local authority has jacked up its expenditure and blamed the consequences on the introduction of the community charge". Chris Patten MP Secretary of State for the Environment (*Hansard* 25 April 1990 col 356)

Were councils to blame?

Poll tax was not the only change that took place from 1 April 1990. At the same time new controls on *capital expenditure* were introduced. This forced some expenditure that councils had paid for from capital to be paid for from *revenue*.

Housing Revenue Accounts were 'ringfenced' (councils were supposed not to subsidise the *general fund* from the rent account and vice-versa). All these affected the general fund. The national curriculum was being introduced and budgets were being delegated to schools in most local authorities for the first time. Simultaneously councils had to meet 5 per cent of housing and poll tax benefit claims, whereas prior to 1990 it was 3 per cent.

The government announcement about local government spending was unrealistically low. This was not just the view of all the local authority associations it was also the view of the Chartered Institute for Public Finance and Accountancy (CIPFA) who took the unusual step of writing to MPs before the debate in January 1990 on local government finance.

All the government figures assumed 100 per cent collection of the poll tax when the practical evidence from Scotland, where poll tax had already been introduced, was that collecting the poll tax was far more difficult than collecting the rates.

capital expenditure p64
revenue p28
Housing Revenue Accounts p72
general fund p52

In summary the problems were:

The government made an allowance of 3.8 per cent for inflation when the actual figure was 7 per cent.

No allowances had been made for the cost of implementing new responsibilities imposed on councils by the government.

The government estimate of local authority spending was not based on the actual spending of councils. For example, it ignored the amount of reserves that had been used – £600m in the previous year.

No account was taken of the costs of non collection – the need to levy a higher tax to compensate for people who did not pay – in the government's figures.

Local government expenditure 1990/91.

	Government view £bn	Actual budgets £bn
Revenue Support Grant	9.468	9.468
Specific Grants	2.995	2.995
National Non Domestic Rate	10.428	10.428
Poll Tax	9.909	13.033
Use of reserves	—	0.734
Total	**32.800**	**36.658**

Differences between the Standard Spending Assessments and local authorities' net revenue expenditure for the first year of Standard Spending Assessments.

Comparison of Standard Spending Assessments and Net Revenue Expenditure 1990/91.

	SSA £m	Expenditure £m	Difference £m
Education	14,753	15,683	930
Personal Social Services	3,592	4,035	443
Police	2,125	2,187	62
Fire and Civil Defence	877	949	72
Highway Maintenance	1,578	1,736	158
All other services	4,502	5,617	1,115
Capital financing	2,380	3,045	665
Total	**29,805**	**33,250**	**3,445**

Source: *Hansard* 17 July 1991 col 216

Council tax

Council tax is a property tax, but the number of people who live in the property is taken into account.

Poll tax was abolished from 1 April 1993 and replaced with a new form of local government taxation – the council tax. But the major problems remain as the changes do not address the inadequacy of the finance system.

Council tax is primarily a property tax on domestic properties. But the size of the bill also depends on who lives in the home. Taxpayers who live alone get at least a 25 per cent discount regardless of their income.

Council tax is very different to the old rating system. Each home is placed in one of eight property bands, A-H, by the Inland Revenue which is independent of the council. Each council sets a tax for Band D and the tax for every other band is calculated using a government formula. For example, in every local authority Band H will always be twice Band D and Band A will always be two-thirds of Band D.

Estimated and actual number of properties in council tax bands and council tax ratios.

Band	A	B	C	D	E	F	G	H
Percentage of properties in Band nationally (DOE estimate 1991)	19.0	16.0	20.0	17.0	13.0	8.0	6.0	1.0
Actual percentage of properties in each band[1]	26.3	19.1	21.8	14.5	9.0	4.9	3.7	0.6
Proportion between Bands (council tax ratios)	6	7	8	9	11	13	15	18

1. Source: Valuation Office Agency.

Who has to pay council tax?

Liability for council tax, like poll tax, is calculated on a daily basis. But as council tax is a tax on buildings not people, liability is linked to who lives in or owns a domestic property in the council's area. There will be only one bill for each household.

The basic principle is that someone who lives in the home can only be asked to pay the bill if:

- they are aged over 18; and
- the home is their 'sole or main residence'.

Where there is more than one resident, the resident with the strongest legal interest in the home will be liable for the tax. So, for example, the owner would take precedence over any tenants.

It is also possible for more than one resident to be liable. Under the 'jointly and severally liable' rules, where two or more people have the same legal interest in the home, such as joint tenants or co-owners, they are jointly responsible for the bill. The heterosexual partner of a liable resident is also jointly liable for the tax on any days when they are both living in the home.

Special rules apply to certain kinds of property, such as residential care homes, houses in multiple occupation, some religious communities and other kinds of shared accommodation. In these cases, the owner not the residents has to pay the tax. In addition, the owner is always liable where there are no permanent residents in the home, for example, on second homes or empty property.

The tax only applies to domestic properties. These are valued and placed in one of eight property bands.

How will council tax be calculated?

The property element

The council tax will only apply to 'dwellings', that is domestic properties. The Listing Officer employed by the Inland Revenue decides which properties are dwellings; bands each dwelling (without giving it an individual value) and puts it into one of the eight Bands.

In any council area, the tax due on the dwelling will depend on which Band it is in. Put simply, those homes in the lower value Bands will pay less than those in the higher value Bands.

The legislation sets out how, once Band D has been worked out, each local authority must calculate the amount of tax payable in the other Bands.

Disability reduction scheme

Where the home is the sole or main residence of a disabled person, a special formula can be used by the local authority to make the tax payable equivalent to that for the Band below the one that applies to the dwelling. For example, someone living in a Band D dwelling will pay Band C tax. This cannot apply to Band A dwellings which are already in the lowest tax bracket.

Council tax Bands for England, Scotland and Wales.

Property Band	Property Value
England	
A	Under £40,000
B	£40,000 – £52,000
C	£52,000 – £68,000
D	£68,000 – £88,000
E	£88,000 – £120,000
F	£120,000 – £160,000
G	£160,000 – £320,000
H	£320,000 +
Scotland	
A	Under £27,000
B	£27,000 – £35,000
C	£35,000 – £45,000
D	£45,000 – £58,000
E	£58,000 – £80,000
F	£80,000 – £106,000
G	£106,000 – £212,000
H	£212,000 +
Wales	
A	Under £30,000
B	£30,000 – £39,000
C	£39,000 – £51,000
D	£51,000 – £66,000
E	£66,000 – £90,000
F	£90,000 – £120,000
G	£120,000 – £240,000
H	£240,000 +

Source: DOE.

Some people qualify for discounts on the council tax bill. Certain other groups are ignored for the purposes of the tax.

The personal element

Some taxpayers will not have to pay the full council tax bill for their dwelling. If there is only one person living in a property the bill will be reduced by 25 per cent. Other groups of people are treated as invisible (the official phrase is 'disregarded for the purposes of discounts') and this can in some circumstances result in a 50 per cent bill. If a property is empty the owner will usually pay a 50 per cent bill.

Broadly speaking, the purpose of the discounts is to ensure that anyone living alone pays less than other taxpayers and the tax on an unoccupied property is lower still.

Discounts are not related to ability to pay and will reduce the bills of all single householders, however wealthy they are. Therefore, their cash value will be highest for those living in the most valuable homes.

Exemptions

As council tax is a tax on buildings, exemption can only apply to dwellings and not to people. People who were exempt from poll tax won't be exempt from the council tax. They will have to pay some council tax even though they may be treated as 'invisible' and qualify for discounts. The biggest group of people this is likely to apply to are those with severe learning disabilities or conditions such as Alzheimer's disease who live alone in the community.

The dwellings which will be exempt from council tax are those which have been exempt from standard poll tax, such as homes which are not lived in because the resident is in prison or residential care. Halls of residence, as well as flats and houses occupied solely by students will also be exempt.

Transitional protection

£340m will be spent in 1993/94 largely protecting taxpayers whose properties are in the higher bands. Without such a scheme they would face much bigger bills because of the change from poll tax to council tax.

People on low incomes pay smaller council tax bills.

Rebates

Council tax rebates are available for taxpayers on low incomes.

• Those on the lowest incomes qualify for 100 per cent rebates from April 1993, they no longer have to make a 20 per cent contribution towards the tax as they did with the poll tax;

• The rate at which rebates are withdrawn when income is too high to qualify for maximum rebates, known as the taper, is 20 per cent (for example, for every pound of income above their income support level, the claimant will have their council tax rebate reduced by 20 pence);

• A 'second adult' rebate will be available for people who are liable for council tax and not receiving council tax benefit when they live with other people who are on income support or very low incomes. (In 1993/94 less than £135/week).

Council tax in the future

Some of the fundamental aspects of the tax – the number of bands; the proportions between them and the size of the discounts – can all be varied by Parliamentary Order in subsequent financial years. The scheme could therefore be changed substantially without needing a new Act of Parliament. For example, the Secretary of State could ask parliament to agree to regional banding or abolition of the discounts.

In many parts of the country, the vast majority of homes fall into just two or three Bands. So council tax will be very like poll tax in these areas with most people paying nearly the same level of council tax even though they live in homes with very different values.

The personal discount takes no account of ability to pay. Someone earning £30,000 a year living alone in a Band D property will pay a 75 per cent bill while a pensioner couple in an identical property next door with a small occupational pension that takes them outside benefit will pay the full bill.

Capital and Revenue

Introduction

There are two types of council spending – revenue and capital.

Revenue expenditure is generally day to day spending which does not produce a long term physical asset; for example, salaries, rents, supplies, library books, cleaning materials, electricity.

Capital expenditure is spending which produces an asset that will last a long time; for example, buying or reclaiming land, building roads, replacing roofs, modernising buildings.

Sometimes the distinctions between the two types of expenditure can be less straightforward – for example, work which will substantially improve the thermal insulation of a building can be treated as either capital or revenue.

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capital expenditure p64

Revenue

This section explains how the day to day (revenue) spending on council services is financed, how much comes from central and how much from local taxation, and how the figures for each council are worked out.

How a council gets its revenue

A council's day-to-day spending is paid for by money from central government, businesses and local people.

The most important sources of revenue income for council services are the following:

Revenue Support Grant (RSG)

- money paid to councils by the government from central taxation.

Specific Grants

- grants paid by the government to councils for specific purposes (eg Housing/council tax benefit administration, Police grant, and money to support urban regeneration).

National Non-Domestic Rate (NNDR)

- a council's share of the money paid into the national business rate pool by shops, factories, and offices.

Council tax

- income raised by the council tax (previously poll tax) from local people.

Decisions about the first three are all made by the government.

The government's role

Central government decides how much money councils will receive – it doesn't ask them how much they need.

The government decides:

- how much it thinks local authorities in total ought to spend;
- how this spending will be financed;
- each council's share of the national total.

In this way the government controls the size of the cake and how it is divided up. The government also decides how much of this overall total will be paid for by businesses, and by central taxation.

Every year the local authority associations in England (AMA, LBA, ALA, ADC, ACC) discuss with government officials the spending needs of local councils. Separate discussions are held between CoSLA and the Scottish Office and the Welsh Office and representatives of local authorities in Wales. A submission describing those needs for the following year is presented to the government in July. This is based on projections which take account of inflation, demographic changes, new responsibilities, and savings that can be made. The government then announces its national view of the amount local councils should spend.

Council spending 1990-1994 – council estimates, government determined spending and actual spending.

Year	LAA estimate £bn	Actual TSS £bn	Actual expenditure £bn
1990/91	£35.300	£32.800	£36.658
1991/92	£41.300	£39.000	£40.193
1992/93	£43.900	£41.868	£42.937
1993/94	£45.415	£41.168*	

LAA estimate:	the submission made by the local authority associations.
TSS:	Total Standard Spending – ie the amount of money the government budgets for councils to spend.
Actual expenditure:	What councils spent or actually budgeted to spend.

* Government proposal for 1993/94

Deciding how much comes from central government

After deciding how much councils should get from the business rates and council tax, the government can work out how much grant it has to pay.

Having decided how much money councils should spend, the government must work out where the money will come from.

The total available to councils is known as Total Standard Spending. As we have seen above this is made up from money from a number of sources: *Revenue Support Grant* (RSG), *Specific Grants,* the *business rate* (NNDR) and income from *council tax* (previously poll tax).

The amount the government puts in is, in a sense, decided by working backwards. The government determines a level of council tax – known as council tax for standard spending – which it considers reasonable for each local authority in England, Wales or Scotland to levy (in 1992/93 under the poll tax this was £258 in England). It also decides the rate poundage for the business rate.

The balance is met from grant paid from central taxation.

The government often uses the phrase Aggregate External Finance (AEF). This is calculated by adding together Revenue Support Grant, Specific Grants, some Special grants and the money paid to councils from the National Non-Domestic Rates.

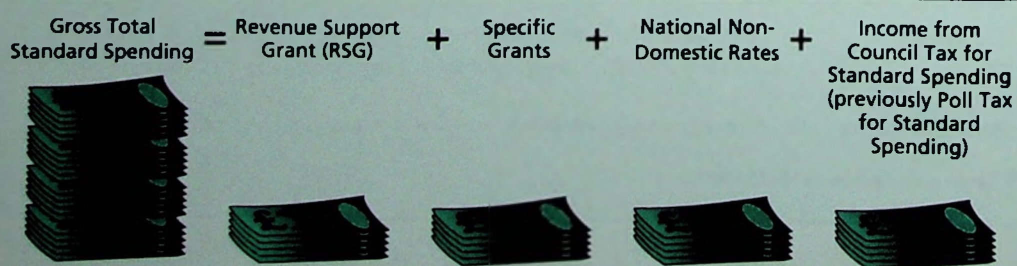
The amount of money the government allocates to local government is based primarily on its view of national economic priorities. It does not reflect local needs. The 'bid' for resources made by the local authority associations is rarely met in full.

Council budgets 1993/94

Revenue Support Grant p28
Specific Grants p31
business rate p44
council tax p22

The squeeze on council budgets was tightened in 1993/94. The government announced that it thought councils needed to spend £41.168bn, yet councils thought they needed some

How Gross Total Standard Spending is made up.



4bn more than that. In 1992/93 they had actually budgeted to spend £42.9bn, so the government's estimates make cuts in jobs and services inevitable.

Specific Grants

The government can direct money at certain council activities by using Specific Grants.

Specific Grants are paid to support services where the government wants to have considerable influence over the way in which money is spent (for example, the police service) or where the council is acting as little more than an agent for central government (for example, mandatory grants for students). Nevertheless they are an important source of finance for many councils.

The size and purpose of the 1992/93 Specific Grants within each SSA service block.

Service block	Specific Grant (Revenue)	1992/93 £m
Education	Education Support and Training	206.6
	Travellers' children	7.4
	Careers Service	19.1
	Section11	116.0
	Urban Programme	28.2
Personal Social Services	Social Services Training	29.0
	AIDS/HIV	15.3
	Mental illness	31.4
	Drug and Alcohol Misuse	2.1
	Section 11	8.5
	Urban Programme	23.4
	Guardian ad Litem	5.7
Police	Police	2,622.6
	Urban Programme	11.0
Fire and Civil Defence	Civil Defence	20.8
Other	Housing Benefit Admin	77.4
	Community Charge Benefit Admin	44.8
	National Parks supplement	15.0
	Section 11	8.5
	Urban Programme	4.9
	Supplementary Benefit Act Sch 5	1.3
	Short Term Leasing	20.0
	Sheltered Employment	17.7
	Magistrates Court	222.7
	Probation	258.9

In some cases (such as Housing/council tax Benefit Administration) the government pays a grant which is meant to cover the costs of administration. In others they cover a fixed percentage of the costs of a service or part of a service (for example, 75 per cent of the costs of a development which is part of an *Urban Programme* scheme). Some grants (eg In-Service Teacher Training) are revenue only, others (eg Urban Programme) are grants for *revenue* and *capital* spending.

In 1992/93, 69 per cent of the £3,818m in Specific Grants were exclusively for the police service.

Special Grants

Some grants help councils to cover 'extra' costs incurred.

In some years, Special Grants are paid to 'help' councils with particular additional expenses. For example, councils received a share of an £86m grant to prepare for the council tax in 1992/93.

The 'Special' grants which formed part of the total AEF in 1992/93 consisted of £309m allocated in Area Protection Grant to councils which the government says lost from the introduction of the poll tax, and £50m shared amongst inner London boroughs that took over education functions from the Inner London Education Authority. Special grants are being phased out.

Deciding each council's share of the national total

The grant a council gets is not related to what it actually spends.

The government's stated aim is that in each local authority area, the same council tax levels (previously poll tax) should be sufficient to finance the level of spending considered necessary by the government.

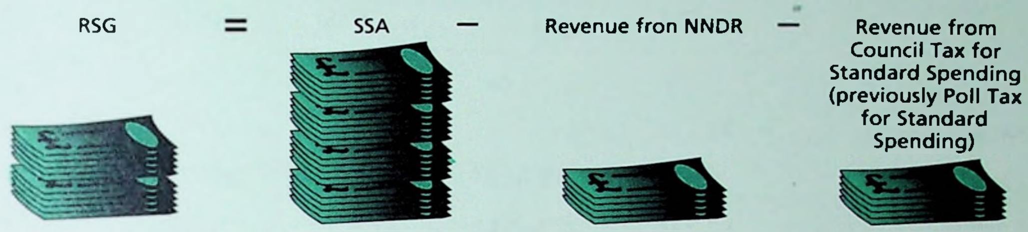
These central government assessments of 'local spending needs' are called *Standard Spending Assessments (SSAs);* the level of Band D *council tax* (previously *poll tax*) required to fund spending at the SSA level is known as council tax for standard spending (previously poll tax for standard spending).

To arrive at the amount of grant (RSG) each council gets, the government subtracts the council's income from the business rate and from council tax for standard spending from its SSA.

In this way revenue support grant (RSG) is fixed – and does not vary according to higher or lower spending levels.

Urban Programme p78
revenue p28
capital p64
SSAs p35
council tax p22
poll tax p19

Arriving at an individual council's RSG.



How 1992/93 Poll Tax for Standard Spending in England was arrived at by the government.

	£m
Total Standard Spending	41,811
less RSG distributable	16,605*
less Specific Grants	3,818
less NNDR distributable	12,306
leaving income needed from Poll Tax	9,082
Poll Tax	**£257.47/adult**

* RSG actually totals £16,623m but £18m is for specific bodies that are not councils.

The Poll Tax for Standard Spending is the Poll Tax local councils would charge (assuming 100 per cent collection) to pay for local services if spending was at the level expected by government (ie Total Standard Spending).

How 1993/94 provisional Council Tax for Standard Spending in England was arrived at by the government.

	£m
Total Standard Spending	41,168
less RSG distributable[1]	17,598
less Specific Grants	3,981
less NNDR distributable	11,559
leaving income needed from Council Tax	8,030
Band D Council Tax[2]	**£493.60**

1. Includes Special Transitional Community Care Grant (£565m).

2. National Tax base = 16,269,616 Band D equivalent properties.

How the local government finance system for the councils in Avon works (1992/93).

	SSA		CCSS	NNDR	RSG
	-2-	-3-	-4-	-5-	-6-
Avon	**565.141**				
Bath	8.472	**55.435**	15.149	20.526	19.760
Bristol	42.548	**275.591**	75.171	101.856	98.564
Kingswood	6.494	**60.621**	17.459	23.657	19.504
Northavon	10.280	**87.462**	24.896	33.734	28.832
Wansdyke	5.644	**53.254**	15.357	20.809	17.087
Woodspring	14.526	**120.741**	34.261	46.423	40.056

Avon County Council has an SSA of £565.141m (col 2). Bath District Council has an SSA of £8.472m (col 2). Bath's share of Avon's SSA is £46.963 giving a total of £55.435m (col 3).

The government calculates that Bath's share of the National Non Domestic Rate pool will be £20.526m (col 5), and that if it sets a poll tax of £257.47 this will raise £15.149m (col 4), therefore it will get £19.760m (col 6) in Revenue Support Grant.

Avon County Council's income comes from precepting the districts. RSG and NNDR are paid to the Districts and they pay the precept from the income they get from NNDR, RSG, and Poll Tax. (From 1993/94 Avon's share of the RSG and NNDR are paid direct to the County.)

If Avon County Council decides that it needs a precept higher than £565.141m or Bath decides that it needs to spend more than £8.472m the 'extra' must come from the Poll Tax.

Poll Tax for Standard Spending and actual average Poll Tax levels 1990/91-1992/93.

Year	Poll Tax for Standard Spending £	Actual average Poll Tax level £
1990/91	277.94	357.00
1991/92	380.67	391.00
1991/92 after the £140 reduction	240.67	251.00
1992/93	257.47	281.00

Business Rate/adult and Poll Tax for Standard Spending 1990/91-1992/93.

Year	Business Rate/adult £	Poll Tax for Standard Spending £
1990/91	292.51	277.94
1991/92	349.18	380.67
1991/92 post budget	349.18	240.67
1992/93	348.86	257.47

Standard Spending Assessments

SSAs underpin the whole local government finance system, yet they are not an accurate measure of what councils need to spend.

In 1990/91 Standard Spending Assessments (SSAs) were introduced as a way of assessing what the government thought each local authority should spend. These are not based on actual spending nor on plans drawn up by local authorities.

They are a way of distributing grant to councils, not of working out how much money councils actually need.

In 1989, prior to the final decisions on the SSAs, ministers were presented with a number of different ways of setting up the new system. These varied so widely that on one option Hackney's projected poll tax for a set level of spending would have been £48, while on another it would have been £606.

Standard Spending Assessments (SSAs) underpin the grant system and are used as the basis for controlling councils' spending through 'capping'.

SSAs are divided into 7 subject headings (known as service blocks) relating to local authority services. These are:

- Education
- Social Services
- Police
- Fire & Civil Defence
- Highway Maintenance
- All Other Services
- Capital Financing

Each year, usually in July, the government announces the total level of expenditure it believes local authorities should incur in the following year. Later, usually November, it announces how much of this total it intends to allocate to each service block (this is known as the 'control total'). These figures are for consultation.

Alongside the national totals, the government tells each local authority what it is proposing its individual SSA should be for each service block.

If the SSA is more than a council's needs, it is getting a subsidy; if it is less, local tax bills will have to rise or services will have to be cut.

The government works this out using a limited range of information about each council area, such as the number of people aged over 65 who live alone, the total number of people who live in the area, the number of people who come into to the area each day to work, the number of school children aged 5-10.

Between November and the final announcement, which is usually in January, councils can submit their views to the DoE on the amount they have been allocated. Early in January the government announces the actual figures that will apply for the following financial year. These are usually much the same as the November figures.

SSAs are crucial. If the SSA increases, the amount of grant increases – pound for pound. If the SSA overestimates the spending needs of a council, the council is getting a subsidy. If they underestimate the needs, council tax bills (previously poll tax bills) will have to go up and/or services will have to be cut.

The premise behind the use of SSAs for distributing government grant is that an SSA is supposed to be an estimate of the cost of providing a standard level of service.

But this view is flawed. An evaluation of the actual cost of providing a given number of books in a library, a given number of pupils per teacher or housing a given number of homeless families has never been undertaken.

As the AMA pointed out: "It is very insidious phraseology. The 'standard level of service' does not exist and has not been considered. All we have been involved in is discussions about how we can share out a fixed amount of money determined by the government." (*Public Finance and Accountancy* 15 September 1989.)

The flaws in the system were evident from the day it was set up. Census data is used extensively, yet when the SSA system was introduced the census data was 10 years out of date.

Flaws are also evident from the SSA figures themselves. Taken at face value, the government's Standard Spending Assessment figures show that in 1991/92 it cost £237 to provide a standard level of service to each person in Leicester, but only £128 in Stoke.

Some of the problems of the current system are:

The system has many problems, not least of which is that some of the data are unreliable.

• The government determines both the size of the cake and how it is divided up.

• Councils get grant, even where the service at which that grant is aimed is not provided. For example, CIPFA (Chartered Institute of Public Finance and Acountancy) statistics on planned education spending for 1989/90 showed that Gloucestershire made no provision for nursery schools or classes. In 1990/91 it received an SSA of over £5m for a service it did not provide.

• Some of the data is out of date. Some of the information used is unreliable and some factors are very influential.

• These problems multiply when the same factor is used more than once. For example if the figure for the proportion of children in lone parent families is misleading, it will distort the SSA for Personal Social Services as well as Education.

• Until 1993/94 many factors were based on the 1981 census.

• In 1991 the Commons Health Select Committee called for a review of the SSA formula for social services in London. The Department of Health had ignored indicators of need and incorporated its own unvalidated formula.

The system, therefore has many anomalies, such as:

• In 1990/91 SSA data for winter road maintenance from the met office suggested that Brent had more snow than Cumbria and Camden more than Lancashire.

• A DoE comparison between Westminster council's 1990/91 Other Services SSA and its actual expenditure revealed that the SSA was £68m while actual expenditure was only £28m – this difference alone was worth £301.17 to every poll tax payer in Westminster.

Concerns about SSAs led the Audit Commission to say:

"The government should not underestimate the lack of confidence in SSAs among local government politicians and professionals" (Audit Commission response to *A New Tax for Local Government*)

District councils cannot tell whether their spending on a service is more or less than the government expects.

The Other Services Block

Non metropolitan *district councils* are at the mercy of the 'Other Services Block' (OSB) which covers 31 different service areas ranging from consumer protection to concessionary fares, from environmental health to economic development, and from refuse collection to the registration of electors.

Under the old Grant Related Expenditure Assessments (GREAs) there were 26 different indicators of the need to spend used in deciding how much local authorities should spend. Under SSAs there are just 6.

More importantly, the control total for the Other Services Block is not broken down into the different service areas so the government is unable to say how much is allocated for each individual service (eg collecting the council tax).

Authorities find that they cannot tell whether their actual spending on each individual service is more or less than the figures allowed for by the government, and that they are unable to consider, comment or argue with the government about their own spending levels and the amount of money for them in the control total.

The SSAs for non metropolitan district councils are determined almost exclusively by reference to the Other Services Block which accounts for about 80 per cent of the SSA for the authority.

district councils p8

The 1992/93 Education block is divided into 5 sub blocks:

- Primary
- Secondary
- Post 16
- Under 5s
- Other

5 types of indicator are used in the calculation of each of the 5 sub blocks:

1. An allowance is made for the size of the client group, eg secondary education is calculated on the basis of the number of pupils aged 11-15).
2. There is an adjustment for Additional Needs to take account of social deprivation.
3. There is an allowance for sparsity (ie the extent to which the population is dispersed) but this is only applied to primary, secondary and the post 16 sub blocks.
4. There is an allowance for the cost of free school meals in the primary and secondary sub blocks.
5. An 'Area Cost Adjustment' to take account of varied labour costs.

The calculation of Additional Needs is very significant. It is the only factor in the assessment that takes account of extra educational needs for social reasons such as class, poverty, disability, ethnic origin, poor environment etc.

Yet the calculation of Additional Needs is based on just 3 factors:

1. The proportion of children in lone parent families.
2. The proportion of children who are children of claimants receiving Income Support.
3. The proportion of children born outside the UK, Ireland and the USA or the old Commonwealth or whose parents were born outside these areas.

This places enormous weight on the proportion of children in lone parent families. This data is based on figures from the 1981 census since when there have been dramatic changes in family composition. 1981 census data will be used to compile SSAs until at least 1993/94.

Figures for the number of dependant children of claimants receiving Income Support are drawn from 8 DSS quarterly returns which are then averaged. But this data is also relatively old (eg the data for 1991/92 SSAs was drawn from figures for May 1988-February 1990).

The data for the third element is also drawn from the 1981 census and will be changed in 1994/95.

Capping

Capping is a way for the government to control how much councils can spend and the size of local tax bills.

More than any other part of the local government finance system capping illustrates how it is central government not local government which decides what can be spent on local services. Central government is effectively setting maximum local tax levels in every part of the country.

The Rates Act 1984 introduced 'ratecapping' – officially called 'selective rate limitation'. The Secretary of State for the Environment was given powers to set a maximum rate limit for selected councils.

When the poll tax was introduced the government took powers which enabled it to cap the budget of any council which spent more than £15m. Caps were announced after councils had set their budgets. The budget cuts that were forced on councils led to poll tax reductions, so the system became known as 'poll tax capping'. By 1992/93 'capping' had been extended to every council. Even wider powers have been taken for 'council tax capping'. These allow Ministers to decide to include the spending of parish councils.

How does it work ?

Every council has to set its budget for the forthcoming financial year before 11 March. Details must be sent to the Department of the Environment within seven days. A few weeks later the government announces the actual criteria it will use to designate councils for capping.

According to the legislation, the criteria are supposed to be the same for all councils or for all councils of the same type (eg district councils) but when the first set of criteria were announced in 1990/91 there were effectively different criteria depending on whether a council had a budget of more than £600/head.

In addition the government can use a 'de minimis' rule which allows some councils that would otherwise meet the criteria to avoid designation.

As well as the criteria, the government announces which councils are designated and what it thinks should be the maximum budget of each one. Councils are not told how the government has arrived at the budget it is proposing, or the factors that have been taken into account.

Councils can appeal against their cap.

A council can be designated for capping if the government thinks its budget is excessive or if the government thinks there is an excessive increase in the budget compared with the previous year.

Once the criteria have been announced, any council that has been designated has 28 days to decide whether to accept the Secretary of State's figure or to challenge it. If the council decides to challenge it must suggest an alternative maximum to the one proposed by the Secretary of State. This can be the same as or lower than the original budget but it cannot be higher. Councils must make their case in writing and can ask for a meeting with a minister.

The Secretary of State then lays an parliamentary order which must be approved by the House of Commons specifying the maximum budget for each of the authorities that s/he designated. Councils are not told how or why the Secretary of State has reached this decision.

Once the order has been approved councils have 21 days in which to identify the reductions and draw up a revised budget. If they fail to do so they cannot draw on their collection fund and the money in the council's general fund which is used to pay for council services will rapidly run out bringing services to a halt.

The procedure means that it can be two months or more into the financial year before a council knows what level it can spend at. This timetable also means that the original bills will usually have been sent out before an authority knows if it is to be capped. Reissuing bills is expensive and disruptive.

The capping criteria for the last four years.

The government can designate a council for capping if it thinks its budget is 'excessive' or if it thinks there has been an 'excessive increase'.

Year	Councils that could be designated	Criteria for 'excessive'	Criteria for 'excessive increase'	De Minimis Rule
1990/91	Budget greater than £15m	12.5% and £75/adult above SSA	None	Not designated if budget was no more than £26/adult above 'excessive' level
1991/92	Budget greater than £15m	12.5% above SSA	Over 9% above previous year's budget AND over SSA Over 7% above previous year's budget AND more than 5% over SSA Over 5% above previous year's budget AND more than 10% over SSA	Not designated if budget was up to £10,000 above 'excessive' level
1992/93	All councils except parish councils	12.5% above SSA except where the budget is no more than the year before (up to 30% over SSA) Or where the council has a budget at least 5% lower (up to 60% over SSA) Or where the budget is at least 10% below previous year's	Over 6.5% above previous year's budget AND over SSA Over 4.5% above previous year's budget AND more than 5% over SSA Over 2.5% above previous year's budget AND more than 10% over SSA	Not designated if budget was no more than £1.50/adult above 'excessive' level
1993/94 Provisional	All councils except parish councils	12.5% above SSA except where the budget is no more than the year before (up to 30% over SSA) Or where the council has a budget at least 5% lower than the year before (up to 60% above SSA) Or where the budget is at least 10% below previous year's	Over 2.5% above previous year's budget[1] AND over SSA Or over 1.75% above previous year's budget[1] AND over 1% above SSA Or over 1% above previous year's budget[1] AND over 5% above SSA Or over 0.50% above previous year's budget[1] AND over 10% above SSA	

In 1993/94 major changes occur. Poll tax is abolished and council tax is introduced. Further Education is no longer the responsibility of local councils. Care in the Community is a new responsibility for them.

1. Budget comparisons will be made with 'notional' figures for 1992/93 set by government ministers.

The noose tightens.

1986/87–1989/90 Rate Capping	Councils designated in October for the following financial year. October–January councils could make representations, and would know what the maximum rate was before the budget was set.
1990/91	Poll Tax Capping. Applied only to councils with budgets over £15m. Councils set budgets without knowing what the criteria would be. 21 were designated and forced to cut their budgets in July 1990. Poll tax bills had to be reissued.
1991/92	Applied only to councils who had budgets over £15m (even though government had power to exclude more councils by raising the exclusion limit – max £35m). Councils told provisional criteria in advance. Most cap themselves. 14 designated.
1992/93	All councils face possibility of capping. Most cap themselves. 10 designated.

Universal capping

By announcing the criteria before councils set their budgets, the government is effectively capping all councils.

By law the government cannot set the actual capping criteria until after councils have set their budgets, but in October, when the provisional SSAs are usually announced for the following year the government also announces the provisional designation criteria. Every council is then able to work out at what level they could be capped if the SSAs and the criteria are not changed.

By this process the government is able to deliver aggregate expenditure totals for local councils. It effectively sets a ceiling on the budget of every council in the country. This is known as universal capping. In July 1991 it was denounced by *The Times* as "an offence against local democracy far more outrageous than anything M Delors is proposing for monetary and political union."

Councils face the unenviable choice of either cutting services to cap themselves to avoid designation and the cost of rebilling or setting a budget which a government minister will reduce to a lower figure, without disclosing how it was arrived at, or what factors were taken into account.

Capping has been condemned by councils of all political persuasions. The use of capping powers by the government undermines the democratic rights of local people to vote for a council which promises to deliver services over and above those the government sees fit. It leaves locally elected politicians in the position of having their budgets set for them.

Business rates

When poll tax was introduced, the responsibility for setting business rates was taken away from councils.

Until April 1990 local authorities were responsible for setting and collecting rates from local businesses. The money from businesses was an important part of a local authority's revenue. It also had the effect of providing a financial link between businesses and local authorities.

As part of the system which introduced the poll tax, the government changed the nature of the business rate and took the responsibility for setting the rate away from councils. In other words, the business rates were nationalised.

The National Non-Domestic Rate (NNDR), which is also known as the Uniform Business Rate (UBR), replaced the local business rate with a national tax.

Under the NNDR system, all businesses pay the product of the rateable value for the property and the uniform rate poundage, which is set by the government each year.

Before the NNDR was introduced, non-domestic properties had not been revalued since 1973. The new rateable values came into force on 1 April 1990. Rateable values no longer apply to domestic properties.

Rate poundages set by the government were lower. Although on average rateable values rose 8.4 times, figures varied widely. In York, for example, revaluation resulted in rateable values of non-domestic properties that were on average 15 times higher. For some shops rateable values increased by a factor of 20. At the other extreme new rateable values in Knowsley were only 4.6 times higher and some factories there only faced a three fold increase.

Although the government argued that the new system, of itself, was not intended to increase income, the new rate poundages coupled with the revaluations produced dramatic changes and outrage in the business community. Small businesses were badly affected – particularly shops. The government announced measures that limited increases, but some businesses still faced rises of 20 per cent over and above inflation.

Uniform Rate Poundage set by the government from 1990/91 to 1993/94.

Year	England
1990/91	34.8p
1991/92	38.6p
1992/93	40.2p
1993/94	41.6p

eg for 1990/91 Rateable Value £4,000

NNDR bill = 4,000 x 34.8p = £1,392

Business rates – winners and losers.

Change in size of bill	Number of properties
REDUCTIONS	
50% or more	100,000
5% to 50%	490,000
Little change +/–5%	110,000
INCREASES	
5% to 50%	430,000
50% to 100%	250,000
More than 100%	250,000

Source: DOE deposited papers 5522 and 6261

Many small businesses found their rate bills rose dramatically when the new system was introduced.

The uniform rate poundage is set each year by the government, usually in October. The law prevents the government from increasing it by more than the increase in the rate of inflation in the 12 months to September.

Overall, businesses are paying considerably more under NNDR than under the non-domestic rating system. Income from non-domestic rates rose from £8.912bn in 1988/89 to £10.733bn in 1990/91 and were forecast to yield £12.408bn in 1991/92. NNDR has resulted in businesses meeting a greater share of the cost of local authority services than at any time during the 1980s.

The extent to which Business rates are financing local government before and after the introduction of the National Non-Domestic Rate.

Year	NNDR element[2] of AEF[4] £bn	Outturn[3] £bn
1988/89	n/a[1]	8.912
1989/90	n/a[1]	9.617
1990/91	10.428	10.733[5]
1991/92	12.408	12.000[5]
1992/93	12.306	11.600[5]

1. n/a: not applicable; the NNDR was not introduced until 1990/91.
2. NNDR element: the amount distributed to local councils.
3. Outturn: the amount paid into the NNDR pool.
4. AEF: Aggregate External Finance.
5. Source: *Hansard* 29 October 1992.

The proportion of Total Standard Spending met through the National Non-Domestic Rate.

Year	NNDR element of AEF £bn	% of Total Standard Spending
1990/91	10.428	31.79
1991/92	12.408	31.81
1992/93	12.306	29.44
1993/94 (proposed)	11.559	28.07

Local councils collect the NNDR and pay it into a national fund which is then redistributed by the government, forming part of the income received by councils.

Councils collect the rates from businesses and pay them into a national fund.

Under poll tax, NNDR was redistributed on the basis of a council's relevant population (roughly speaking the number of poll tax payers). With the council tax it is distributed on the basis of official mid-year population figures.

Revaluations must be carried out every 5 years. The next valuations will come into effect from 1 April 1995.

Not all 'business' premises have to pay the full business rate. Mandatory Relief of 80 per cent is allowed where the ratepayer is a charity (or trustees for a charity) and the property is wholly or mainly used for charitable purposes. A council can top this up to 100 per cent relief if it wishes. The NNDR pool bears the whole cost of the mandatory 80 per cent relief and 25 per cent of any discretionary relief. This means that if a council grants 100 per cent relief to a charity 85 per cent of the cost is met by the NNDR pool and 15 per cent is met by council tax payers.

Relief of up to 100 per cent can also be awarded at the discretion of the local authority to non profit making organisations which are not registered charities. When this discretionary relief is granted 75 per cent is met by the National Non-Domestic Rate Pool and 25 per cent by local taxation.

The nationalisation of the business rate has removed an important link between businesses and local councils. The bills businesses pay no longer have any relevance to the level of services provided locally.

Councils do not benefit directly by investing in the infrastructure that is essential for the development of the local economy and the removal of the power to levy a local business rate has reduced the tax base of local councils.

Setting the council tax

The council sets the tax rate for a Band D property and the other Bands are worked out according to ratios set down by the government.

All the district councils (including metropolitan districts) and the London boroughs have to set a *council tax*. The council tax level for a *Band D* property is calculated as follows:

1. A council deducts from the total of *precepts* and its net revenue expenditure (total spending less income from fees and charges) the income it will receive from *revenue support grant* and from its share of *non-domestic rates.*

(NB County Councils will get Revenue Support Grant and National Non-Domestic Rate payments paid directly by the government from 1993/94)

2. If a council has reserves it could decide to use some of the reserves to reduce the council tax level.

3. The balance has to be met from the council tax. Assume a council has a net revenue expenditure of £200m, from which it deducts £142m in Revenue Support Grant and the £25m it will receive in business rates.

This leaves £33m to be raised for the council tax.

There are the equivalent of 63,000 Band D properties so the tax would be £33m divided by 63,000 which equals £523.81. The council tax for all the other bands are worked out by multiplying Band D by ratios set down by the government.

So, for example,
Band H will be twice Band D – £1,047.62
Band A will be two thirds of Band D – £349.21.

As with the poll tax the council must also take account of whether it can expect to collect all the council tax. Everyone expects collection rates to improve although the 'culture' of non payment will take time to change. Some people will face the choice between paying off poll tax arrears and keeping the bailiffs away and paying council tax. Here too collection rates will be affected.

Suppose this council assumes collection rates will be 97 per cent in the first year; 97 per cent of 63,000 is 61,110 Band D equivalents.

So the council tax for a Band D property calculation becomes £33m divided by 61,110 which equals £540. Band H will be £1,080 and Band A will be £360.

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Band D property p23
precepts p53
revenue support grant p28
non-domestic rates p44
county councils p8

Setting the poll tax

Poll tax had to meet the gap between what a council needed to spend and its income from grants and business rates.

All the district councils (including metropolitan districts) and the London boroughs had to set a poll tax. The poll tax level was calculated as follows.

1. A council calculated its net revenue expenditure (planned spending less income from fees and charges). It added any precepts it had to pay to counties or parishes and deducted the income it would receive from revenue support grant and from its share of non-domestic rates.

2. If a council had reserves it could decide to use some of the reserves to reduce the poll tax level. In 1990/91 councils used over £600m in this way.

3. The balance had to be met from the poll tax. For example, a council may have determined its net revenue expenditure as £200m. From this it deducted the £142m it would receive in Revenue Support Grant and the £25m it would receive from its share of the business rates.

This left £33m to be raised from the poll tax.

There were 110,000 poll tax payers, so if everyone could be expected to pay and the collection fund was never in deficit the poll tax would have been £300.

But the council also had to take account of whether it could expect to collect all the poll tax. Suppose this council assumed a collection rate of 90 per cent.

If the council could only expect 90 per cent of the poll tax to be collected it would have needed to plan to raise more money to take account of the losses.

90 per cent of 110,000 is 99,000. £33m to be raised from 99,000 poll tax payers would mean a poll tax of £333.33.

The 'gearing' effect

Councils are penalised for spending more than the government thinks they should.

Because the grant system is not based on councils' actual needs, many councils find they receive too little grant and some get more than they need. Those that do not get enough have to raise the extra from the local tax (or reduce services); those that get more than they need are able to cut local tax bills.

Gearing is the name given to describe the effect of those increases or reductions on local taxes.

The problem of gearing arises because of the operation of the grant system.

If a council is spending at the *SSA* level set by the government it will have to raise about 20 per cent of that money through local taxes.

At that level, for every pound the council spends the government provides 80 pence and the local taxpayer 20 pence. But if a council has to spend more than the government thinks it should because its SSA does not reflect actual spending needs, it has to fund every pound over the government's figure itself.

Gearing also works in reverse. If a council spends less than its SSA it still gets the same amount of grant and the same income from business rates that it would get if it spent at SSA. So for every £1 'saved', £1 can be deducted from the money which has to be raised from local tax payers.

On average about 20 per cent of council spending comes from local taxation. So the average 'gearing' is 5 (ie 20 per cent = one fifth). In other words spending 6 per cent above SSA produces a 6 x 5, ie 30 per cent, increase in the council tax.

The result of the gearing effect is that councils which provide a higher level of service than the government thinks they should are severely penalised and they tend to get blamed for having high local tax bills. The other side of the coin is that councils which do not even provide the minimum level of service the government accounts for do not suffer any penalties. Indeed, their bills are disproportionately low.

SSAs p35

Tower Hamlets

1992/93	£	£/adult
Tower Hamlets SSA	241,163,000	2,048.18
RSG	192,592,000	1,635.67
NNDR income	41,077,000	348.86
Poll Tax	30,315,000	257.47

If Tower Hamlets sets a budget of £241,163,000 (ie at its SSA) the poll tax would be £257.47. But if the budget was £243,574,630 (ie. 1 per cent above SSA) the additional £2,411,630 would all have to be met from the poll tax because RSG and NNDR income are both fixed. Poll tax levels would rise by 7.95 per cent.

Bury

1992/93	£	£/adult
Bury SSA	114,527,000	880.21
RSG	50,616,000	389.01
NNDR income	45,392,000	348.86
Poll Tax	33,500,000	257.47

If Bury sets a budget of £114,527,000 (ie at its SSA) the poll tax would be £257.47. But if the budget was £115,672,270 (ie. 1 per cent above SSA) the additional £1,145,270 would all have to be met from the poll tax because RSG and NNDR income are both fixed. Poll tax levels would rise by 3.42 per cent.

The gearing effect for each council will vary depending on the extent to which local services are funded from local taxation. The smaller the proportion the higher the gearing. In the examples Tower Hamlets has a gearing of 7.95, and Bury has a gearing of 3.42.

Westminster

1992/93	£	£/adult
Westminster SSA	227,992,000	1,675.16
RSG	171,849,000	1,262.66
NNDR income	47,480,000	348.86
Poll Tax	35,041,000	257.47

If Westminster sets a budget of £227,992,000 (ie at its SSA) the poll tax would be £257.47. But if the budget was £205,192,800 (ie. 10 per cent below SSA) the additional £22,799,200 would all be available to reduce the poll tax as RSG and NNDR income are both fixed. Poll tax levels would fall by £167.52 (ie by 65 per cent).

How the size of a council's SSA affects the amount of grant it receives.

To illustrate the importance of SSAs in determining how much central government grant a council receives, look at this example from 1992/93 when Poll Tax for Standard Spending was £257.47, and the NNDR/adult was £348.86. In other words, every council was assumed to be able to raise £257.47 from each adult in poll tax and was allocated £348.86 for each poll tax payer as its share of the business rate (NNDR).

Authority A has a Standard Spending Assessment of £120.48m and a relevant population (roughly speaking the number of poll tax payers) of 96,800.

Therefore, its Revenue Support Grant (RSG) =
SSA (£120.48m) – business rate income (£348.86 x 96,800)
– poll tax income (£257.47 x 96,800).

That is, **RSG = £120.48m – £33.76m – £24.92m = £61.78m.**

However, if the relevant population was 90,000 instead of 96,800, then income from NNDR and poll tax would be lower but the RSG would increase by an equal amount because the grant makes up the difference between the income and the SSA.

If the authority's Standard Spending Assessment had been £5m higher (ie £125.48m) the calculation becomes:

RSG = £125.48m – £33.76m – £24.92m = £66.78m.

The amount of grant the council receives also increases by £5m.

This illustrates how the grant a council receives depends on the SSA.

Collection and General Funds

The law sets out how councils must organise their finances.

The system of financing local council services which was introduced on 1 April 1990 brought changes in the way in which councils organised their own finances. The system changes slightly from April 1993.

Collection Funds

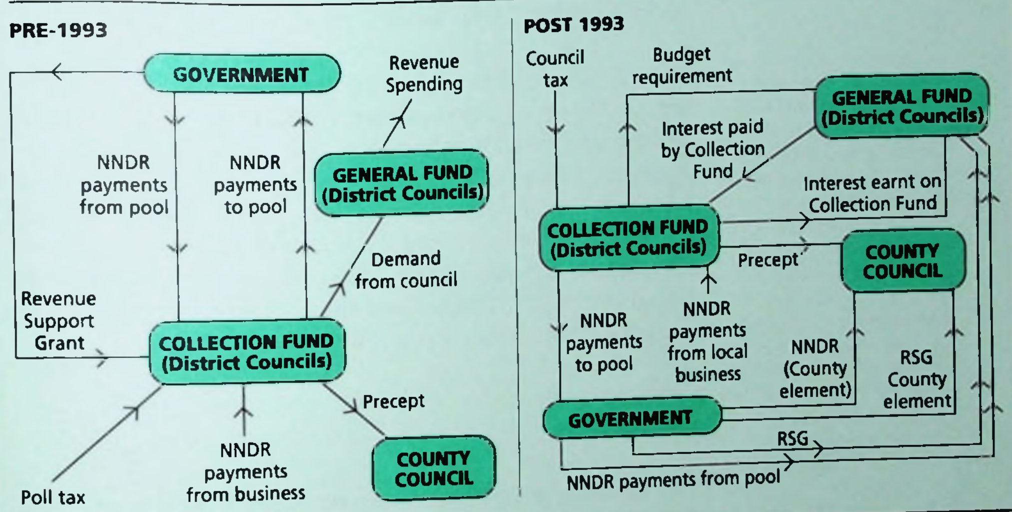
Councils that issue local tax bills are known as billing authorities and must have a 'collection fund'. This has to be kept in balance (ie income and expenditure must balance). What is paid into and out of the collection fund is tightly controlled.

Payments into the collection fund include *council tax*, the *national non-domestic rates* collected by the council, and any interest due.

council tax p22
national non-domestic rates p44

Payments out include precepts (the money collected on behalf of other bodies such as county councils or the police), payments into the national non-domestic rate pool, interest on loans to the collection fund, and the charging authority's own demand (precept) on the fund (the money it needs to provide its services, pay wages etc).

How the collection and general funds operate.



The arrangements for operating a collection fund are different in Wales and Scotland. The operation of Collection funds in England have been changed with the introduction of the council tax.

The system after 1993

If the collection fund has to borrow to keep in balance, the general fund (see below) will have to meet the cost of borrowing, ie pay the interest on any loans. If the collection fund earns interest, the general fund will gain.

General Funds

Every district and borough council as well as the council of the Isles of Scilly has to have a general fund which is used to pay for items of revenue expenditure such as wages, paper, cleaning, fuel, cleaning materials etc. Instead of a General Fund the City of London has to have a City Fund.

Looking at council budgets

This section will help you to understand a council's budget.

The first step in looking at a council budget is to get to know the way the council is organised. Councils are organised into committees to take decisions about running services. Each committee will have a budget. From this budget the committee decides what services to provide, how many staff to employ to provide then and so on. Budgets are a means of looking at what a council does and they should be seen as a tool for deciding policy and priorities.

Council budgets can seem complex but they are simply a series of statements on where councils plan to spend their money and how it is matched by income. The following pages are designed to give the reader an insight into what is involved, to explain some of the 'jargon' and to point to questions that might assist in getting a clearer view of how the money is being spent. These figures were prepared in January/February 1990 when the council was preparing its budget for the financial year 1990/91.

Recharged: Some services are provided by 'central' committees/departments and then charged to other committees. This is known as a recharge. It is a way of allocating the costs of centrally provided services without double counting.

Contingency: Councils usually make budget provision for unexpected expenditure, such as re-insuring after Municipal Mutual Insurance ran into difficulties.

Unallocated Pay Awards: A central budget for pay awards which is allocated during the financial year to individual budgets to meet pay awards.

Inflation: A central budget for inflation which is allocated during the financial year to individual budgets to meet inflation.

GRF: General Rate Fund

Capitalisation: Expenditure which will be met from Capital resources rather than Revenue expenditure.

An overview

The Revenue Budget Summary provides a picture of the revenue budget of the whole council. It is prepared by the Treasurer/Finance Officer. Spending is organised in the pattern of council committees. Each committee's expenditure is shown as a single figure.

The Revenue Budget Summary will be approved by the council, usually in the February or March before the following financial year begins. Column 1 provides the original budget figures for 1989/90 (the figures agreed 12 months earlier), and column 2 provides the revised (the most up to date) figures. The revised figures do not show what each committee actually spent in 1989/90 – in order to find this out you will need to see the 'actual outturn' which will become available a few months after the financial year ends. Column 3 provides the 1990/91 budget, and will, in turn, become the 'original budget' figures (column 1) once the budget is set and the financial year is underway.

In this example the council is planning to spend £216,827,960 in 1990/91 of which £13,827,960 will be met from *reserves,* and the use of *balances.* This leaves a net revenue budget of £203,000,000. This has to be met from *RSG,* the councils' share of the *NNDR* and *poll tax.*

reserves (glossary) p91
balances (glossary) p89
RSG p28
NNDR p44
poll tax p19

Revenue Budget Summary 1989/90 – 1990/91.

Figures in brackets are credits.

Committee	-1- 1989/90 Original Budget £	-2- 1989/90 Revised Budget £	-3- 1990/91 Original Budget £
Community Affairs	2,521,690	2,428,110	0
Education	0	0	100,594,800
Employment and Industry	1,300,890	1,344,080	1,371,980
Health, Environment and Public Protection	9,274,870	9,827,520	9,948,540
Housing	15,976,800	12,138,800	6,374,400
Leisure Services	18,026,630	18,478,670	17,989,410
Personnel and Industrial Relations	23,769,940	20,096,250	25,641,280
LESS Recharged to Services	(22,827,810)	(19,513,050)	(24,339,450)
	942,130	583,200	1,301,830
Planning and Transport	12,724,820	12,894,510	13,160,440
Policy and Resources	16,007,080	17,945,100	25,924,960
LESS Recharged to Services	(5,480,720)	(7,053,240)	(6,698,890)
	10,526,360	10,891,860	19,226,070
Race Relations	296,300	317,330	338,530
Social Services	38,925,930	42,103,090	42,185,180
Womens	222,520	216,810	288,400
Total Committee Budgets	**110,938,940**	**111,423,980**	**212,779,580**
Contingency Provision	468,000	139,000	500,000
Unallocated Pay Awards	2,050,000	500,000	600,000
Inflation Provision	5,500,000	0	14,970,000
GRF Capitalisation	(5,000,000)	(8,600,000)	(1,000,000)
Improved Purchasing	(50,000)	0	0
Improved Use of Energy	(100,000)	0	0
Reduction in Superannuation Fund Contributions	0	0	(1,000,000)
DSO Deficit	0	1,500,000	0
Repairs and Maintenance Reduction	0	(90,000)	0
Budget Reductions Required due to Capping	0	0	(10,021,620)
Total Expenditure on Services	**113,806,940**	**104,872,980**	**216,827,960**
Use of Reserves, Funds and Balances	(18,309,940)	(9,375,980)	(13,827,960)
Gross Borough Requirement	**95,497,000**	**95,497,000**	**203,000,000**

The budget papers will reveal changes that the council has to take into account.

Comments

This budget page provides an illustration of the changes in this council's budget that were taking place throughout these two financial years. Some of these changes were the result of the new rules on local government finance. Others were due to changes in service delivery.

1. In 1989/90 this council originally planned to *'capitalise'* £5m. When the budget was 'revised' this figure had increased to £8.6m, but in 1990/91 only £1m of expenditure could be met in this way. This change alone resulted in a large extra call on revenue.

2. In making its 1989/90 budget this council had planned to utilise over £18m of *reserves* and *balances* but when the 'revised' budget was produced this figure had fallen to about £9.4m.

3. Overall expenditure was increasing dramatically because the council was becoming responsible for Education. The council budget almost doubled from one financial year to the next.

4. In 1990/91 *Housing Revenue Accounts* were ringfenced and as a result the council could no longer contribute to the overall costs from the rate fund. Spending had to be classified as HRA or *General Fund.* This partly explains the major change in the Housing budget, another major factor is that the budget for administering *Housing Benefits* was transferred to the Policy and Resources Committee.

5. The Policy & Resources Committee budget has grown by £8m There are two reasons for this. Firstly the new costs of administering the poll tax have to be met, and secondly one committee (Community Affairs) was abolished and its expenditure was transferred to another (Policy and Resources).

These comments illustrate how council budgets reflect changes in the way that the council is organised as well as outside influences from the government.

capitalisation p54
reserves (glossary) p91
balances (glossary) p89
Housing Revenue Accounts p72
General Fund p53
Housing Benefits p77

Revenue Budget Summary 1989/90 – 1990/91. Figures in brackets are credits.

Committee	-1- 1989/90 Original Budget £	-2- 1989/90 Revised Budget £	-3- 1990/91 Original Budget £
Community Affairs	2,521,690	2,428,110	0
Education	0	0	100,594,800
Employment and Industry	1,300,890	1,344,080	1,371,980
Health, Environment and Public Protection	9,274,870	9,827,520	9,948,540
Housing	15,976,800	12,138,800	6,374,400
Leisure Services	18,026,630	18,478,670	17,989,410
Personnel and Industrial Relations	23,769,940	20,096,250	25,641,280
LESS Recharged to Services	(22,827,810)	(19,513,050)	(24,339,450)
	942,130	583,200	1,301,830
Planning and Transport	12,724,820	12,894,510	13,160,440
Policy and Resources	16,007,080	17,945,100	25,924,960
LESS Recharged to Services	(5,480,720)	(7,053,240)	(6,698,890)
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Womens	222,520	216,810	288,400
Total Committee Budgets	**110,938,940**	**111,423,980**	**212,779,580**
Contingency Provision	468,000	139,000	500,000
Unallocated Pay Awards	2,050,000	500,000	600,000
Inflation Provision	5,500,000	0	14,970,000
GRF Capitalisation	(5,000,000)	(8,600,000)	(1,000,000)
Improved Purchasing	(50,000)	0	0
Improved Use of Energy	(100,000)	0	0
Reduction in Superannuation Fund Contributions	0	0	(1,000,000)
DSO Deficit	0	1,500,000	0
Repairs and Maintenance Reduction	0	(90,000)	0
Budget Reductions Required due to Capping	0	0	(10,021,620)
Total Expenditure on Services	**113,806,940**	**104,872,980**	**216,827,960**
Use of Reserves, Funds and Balances	(18,309,940)	(9,375,980)	(13,827,960)
Gross Borough Requirement	**95,497,000**	**95,497,000**	**203,000,000**

Each council committee will have its own budget.

A slightly closer look

In order to get a clearer idea of how councils are spending their money an examination of the detailed budgets is necessary. A summary of net expenditure will be prepared for each committee. This shows the main headings of spending under the control of the committee. The net expenditure figures should be the same as that shown on the revenue budget summary we have already looked at.

The Revenue Budget Summary shows that the Policy and Resources Committee budget is set to increase by nearly £8m in 1990/91 compared with 1989/90. Now look at the Summary of Net Expenditure for this Committee.

Comments

1. In 1989/90 it cost £2.3m to collect the domestic and non-domestic rates. *Domestic rates* were replaced by the *poll tax* for the financial year 1990/91. In 1990/91 the council still has to collect the new *National Non-Domestic Rate* and pursue unpaid rates from earlier years. The cost fell to about £1.3m. At the same time it has to administer and collect the poll tax. This council estimates that this alone will cost nearly £5.7m. Overall it will cost an extra £4.7m to administer and collect local taxes.

2. The budget for administering *Housing Benefits* has been transferred to Policy and Resources committee adding over £1.6m to the Advice and Benefits heading. This will be matched by a reduction in the net expenditure of the housing committee.

3. The budget for the, now abolished, Community Affairs committee has been transferred to the Policy and Resources committee increasing the budget of this committee by about £2.3m.

Although this gives slightly more information it is not until the detail of the budget is examined that a clearer picture can be established.

domestic rates p16
poll tax p19
National Non-Domestic Rate p44
Housing Benefits p77

Policy and Resources Committee: Revenue Budget Summary.

Summary of Net Expenditure	1989/90 Original Budget £	1989/90 Revised Budget £	1990/91 Original Budget £
Electoral Registration and Elections	257,140	289,000	406,260
Registration of Births, Deaths and Marriages	108,400	85,480	96,570
Local Land Charges	(186,120)	(123,420)	(264,660)
Mayoral and Civic Activities	93,410	74,940	71,130
Cost of Rates Collection	2,359,820	2,316,230	1,284,690
Cost of Poll Tax Collection	1,721,000	3,535,840	5,657,630
Rent Officer Service	0	0	0
Emergency Services	111,380	119,130	114,760
Press and Public Relations etc.	59,320	62,160	87,630
Council Newspaper	109,890	121,180	119,480
Pooled Costs	90,990	58,970	62,090
Chief Executive's Annual Report	1,160	15,620	1,680
Communications Unit	172,390	150,040	165,430
Town Centres	264,650	250,890	356,280
Computer Services	5,480,720	7,053,240	6,698,890
Members' Services	237,280	251,910	272,610
Contributions, Grants and Miscellaneous	4,893,200	3,004,960	6,104,130
Central Team on Corporate Standards	480,930	607,510	719,170
Advice and Benefits	0	71,420	1,747,330
Community Affairs	0	0	2,223,860
Gross Expenditure	16,255,560	17,945,100	25,924,960
Less Charges to Other Services	(5,729,200)	(7,053,240)	(6,698,890)
Net Expenditure	**10,526,360**	**10,891,860**	**19,226,070**

Committee budgets are further broken down, so it is possible to see detailed financial information on different council activities.

A more detailed examination

Here is the detailed page breaking down the figures for the electoral registration budget into printing, postage, overtime etc. The actual outturn figures for the 1989/90 are not available at this stage in the process.

The figures prompt some interesting questions.

- What is covered by the Miscellaneous budget head which accounts for nearly 50 per cent of the non-employee costs and why has it changed so dramatically?

- How is the Admin Buildings *recharge* – which is the cost of providing office accommodation for this function – calculated?

- What is the basis of the Computer recharge – direct?

Each component part of the Policy and Resources Committee will have prepared for it a similar breakdown of spending, *recharges* and income. The same is done for all parts of all committees, which explains why the budget process throws up such a mass of paperwork. However by carefully examining it a very detailed picture can be obtained of what the council is spending on staff, overtime, printing etc. It is the key to understanding.

Finding out how councils decide priorities and allocate resources requires a grasp of how the budgets are constructed. For anyone who wants to change the priorities this understanding is essential.

recharges p54

Election/Registration of Electors.

	1989/90 Original Budget £	1989/90 Revised Budget £	1990/91 Original Budget £
Officers Normal Time	43,400	44,660	49,370
Officers Overtime	420	3,110	460
Temporary Staff	60,560	85,110	65,770
Staff Advertising Expenses	550	600	590
Total Employee Cost	**104,930**	**133,480**	**116,190**
Travelling Expenses	110	420	120
Car Allowances	230	240	240
Printing – In House	5,450	8,350	6,220
Stationery	2,090	5,090	4,550
Photocopying	0	100	0
Postages	11,680	11,700	11,700
Computer Recharge – Direct	38,820	58,190	43,760
Conference Expenses	200	210	210
Advertising	1,430	1,570	1,540
Miscellaneous	10,120	5,200	150,430
Admin. Building Charges	31,420	27,610	32,750
Support Departments Charges	36,270	26,990	29,120
Central Expenses Charges	0	1,350	1,150
Other Recharges from other CT	15,440	8,800	9,400
Total Expenditure	**258,190**	**289,300**	**407,380**
Sales of Data and Information	1,050	300	1,120
Total Income	**1,050**	**300**	**1,120**
Net Expenditure	**257,140**	**289,000**	**406,260**

Timetable

Councils start work on their budgets well before the start of the financial year.

The way that councils set their budgets and the timetable for setting budgets varies enormously between councils. Rapid changes in the way in which local services are financed, coupled with huge changes in local government itself have made budget planning difficult.

Budget strategies may mean decisions being taken many months or even years in advance, and the detailed planning for the following financial year will usually be well underway by August. The council committee cycle which begins in January will finalise details and the final budget is usually agreed in February or early March.

If you want to find out more about the situation in your area you should contact your local council.

Late June/Early July

Councils tell the government how much money they need for the following financial year. Their representatives, the Local Authority Associations, present their case to ministers.

July

The government's estimate of councils' needs – the Provisional *Total Standard Spending* – and *council tax for Standard Spending* for the following financial year are announced.

October/November

The *NNDR* rate poundage for the following year, provisional *standard spending assessments* for each council and *provisional capping* criteria are announced.

January

Final SSAs announced.

March 10

The date by which all councils must have set their budget.

April 1

Financial year starts.

April

Actual capping criteria and *de minimis* rule (if any) are announced and councils may be designated for capping.

28 days later

Deadline for designated councils to challenge their capping level.

Early May

Councils that have *challenged caps* present their case to ministers.

Late May/Early June

Final *capping orders* laid before House of Commons, and if approved...

...21 days later

Councils must have set a new budget or they can no longer draw on their *collection fund*.

Total Standard Spending p30
council tax for Standard Spending p32
NNDR p44
standard spending assessments p35
capping p40
collection fund p52

Capital expenditure

Capital expenditure is spending which produces an asset that will last a long time; for example, buying or reclaiming land, building roads, replacing roofs, modernising buildings.

What is capital expenditure ?

Capital expenditure is spending which produces an asset – unlike revenue which is basically day-to-day spending.

The exact types of expenditure which are regarded as being for capital purposes are defined by the government in legislation and regulations as:

- the acquisition, reclamation, enhancement or laying out of land exclusive of roads, buildings and other structures;

- the acquisition, construction, preparation, enhancement, or replacement of roads, buildings or other structures; and

- the acquisition, installation, or replacement of movable or immovable plant, machinery and apparatus and, vehicles and vessels;

The regulations also include providing grants, advances or other financial assistance to any person towards expenditure on the above as well as:

- buying investments, share or loan capital in any body corporate.

Regulations also state that certain types of work may be treated as expenditure for capital purposes:

- works which are intended to increase substantially the thermal insulation of a building;

- works which increase substantially the extent to which a building or part of a building can be used by a disabled person;

- works to reduce substantially the risks of fire.

Where does the money come from?

Capital spending can be financed in the following ways:

- by borrowing
- by *selling/leasing* land or buildings that the council owns
- by increasing the *council tax*
- by *reaching agreements with private developers*
- by *grants* (Urban Aid)

Borrowing

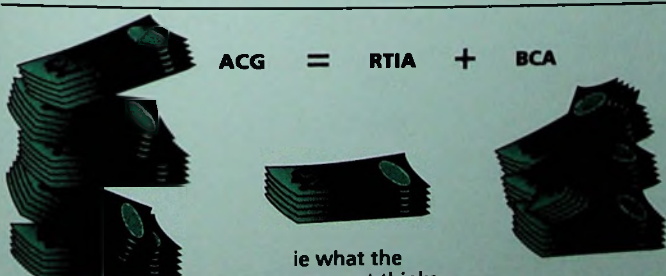
When councils borrow, like any other organisation or individual, they have to repay the money borrowed as well as the interest on the loan.

The government now tightly controls how much each council can borrow.

Each year the government announces its public expenditure plans for the next 3 years. Each council, usually in November, will get an Annual Capital Guideline (ACG). This is, broadly, the amount the government thinks it appropriate for the council to spend on capital projects.

In its calculations, the government assumes that a council will pay for some of its capital expenditure using money it has been paid for sales of assets such as land. It deducts this amount (known as Receipts taken into Account – RTIA) from the ACG; councils are then allowed to borrow the difference between the two amounts. This permission to borrow is known as the Basic Credit Approval (BCA).

Arriving at an individual council's RSG.



ie what the government thinks councils should spend

ie what the government thinks councils have 'in the bank' from selling houses/land

ie what the government says councils can borrow

selling/leasing p66
council tax p22
setting the council tax p48
agreements with developers p68
grants p68

The overall basic credit approval for the council is made up of a number of elements – Education, Social Services, Housing, and Other (all other services). Housing is by far the largest for councils with a housing function.

Basic credit approvals can only be used in the year for which they are issued. If a council does not use all its BCA in one year it cannot transfer it to the next.

Selling/leasing land or buildings

The council is allowed to use some of the money it gets from selling its land and buildings.

When the council sells or leases a piece of land or a building the money it receives is known as a 'capital receipt'. Government regulations say that the receipt must be divided into two parts – the 'useable' and 'reserved' parts and that only the useable part can actually be spent. The reserved part must be 'set aside' and the government assumes that it has been used to repay debt.

Many councils have not actually used the amounts 'set aside' to repay debt (money borrowed to finance previous capital expenditure – housing estates, roads, leisure centres etc) – as it is financially in their interest to invest them. In 1992 it was estimated that councils had £6,500,000,000 of reserved receipts which have not physically been used to repay debt.

The exact split between useable and reserved depends on regulations which give different percentages depending upon what has been sold or leased and the type of receipt.

What part of a capital receipt is useable/reserved?

Asset sold/leased	Useable	Reserved
Sale/lease of house/flat under the Right to Buy	25%	75%
Sale/lease of other land or buildings	50%	50%
Repayment by the Housing Corporation of a loan by the Council to a Housing Association	0%	100%

NB. Most receipts received by a council between 13 November 1992 and 31 December 1993 will be 100% useable.

In and Out schemes

In some cases councils can spend more of their capital receipts.

There are some circumstances when the amount of the capital receipt which can be used may be greater. These are known as 'in and out' schemes. They fall into two groups.

1. Resale

If a council acquires land and then sells it on again, (for example to assist in land assembly for a specific project) the cost of the acquisition and the incidental expenditure are deducted from the capital receipt.

eg Site Acquisition – £2m
Site Sale proceeds – £2.15m

Suppose incidental expenditure costs were £10,000. The council is able to deduct a total of £2.01m from the capital receipt obtained by selling the land. This results in a useable receipt of £70,000 and a reserved receipt of £70,000.

However a council would have to use its own limited capital resources to undertake the purchase in the first place.

2. Replacement

A council may need to dispose of land (and buildings) which are replaced by other sites and buildings for the same purpose. (Eg social services may wish to close a residential care home, sell the site and replace it with another social services facility.)

If certain conditions are met, the reserved part of the capital receipt can be reduced by the cost of replacement together with any incidental expenditure. In some cases 100 per cent will be become useable.

eg Old peoples' home plus land sold for £1.6m
New old peoples' home built on existing site for £1.58m

Capital Receipt – £1.60m
less
Replacement – £1.58m

Incidental expenditure is £20,000. In this case the costs of replacement can be entirely met from the receipt from the sale of a home that no longer meets registration standards.

Other ways of financing capital projects

Reaching agreements with private developers

A council may be able to negotiate specific benefits as part of a development with a private contractor (eg the provision of an area of open space, the clearing of a site, traffic calming measures).

Grants

57 inner city areas are designated as areas which can apply for *Urban programme grants*. Specific projects can be put forward for approval by the Department of the Environment which usually provides grant to meet 75 per cent of the cost with the remaining 25 per cent coming from the council's own resources.

Increasing the council tax

If a council cannot borrow it can use *council tax* income to pay for all or part of a capital project. Few councils are able to do this because the extra expenditure is likely to lead to the council being *capped*.

Councils should be free to determine their own borrowing needs and to manage their own financial affairs. The government accepts that it is economic sense for private sector organisations to borrow money so that they can 'invest in the future', yet regards public sector borrowing for the same purpose – even if the money comes from the same source – as contrary to good economic management.

Restrictions on the way in which councils can spend their own money, the *capital receipts* from the sale of their own assets, is particularly unfair. Capital receipts could be used for the good of the community and to help the nation's economy to recover.

Urban programme grants p78
council tax p22
capping p40
capital receipts p66

Housing

Local authorities are major providers of rented housing. Over the past decade or so the government has tried to reduce the role of councils in providing homes. It has compelled them to sell houses under the Right to Buy legislation. Since 1988 it has introduced a series of measures designed to transfer local authority housing to other landlords. Most have been unsuccessful.

Councils also have a major role in providing grants for the improvement of privately owned property. They also support housing associations in providing housing for people on low income or with special needs.

Background – Housing Capital before April 1990

Councils do not get government money to build houses – they get permission to borrow money.

Government controls on council housing have been tightened in recent years. Until 1976 there were no restrictions on the number of homes a council could build, although the costs of individual schemes were controlled. The money to build homes was raised by borrowing – the permission to borrow being called 'loan sanction'. Between 1976 and 1978 government determined the number of new homes councils could build.

The system of individual loan sanction was abandoned in 1978. In its place the government introduced Housing Investment Programme (HIP) allocations, a system under which councils had to outline their housing needs in the form of a 'bid' to the Department of the Environment. This 'bid' was a bid to be allowed to borrow money, not a bid for the actual money.

The introduction of the Right to Buy brought further changes. From 1980 in order both to encourage sales and reduce government spending on housing, borrowing approvals were reduced. Instead councils were allowed to use a prescribed (specified) proportion of the capital receipt from the sales of council houses and land for prescribed (specified) types of expenditure. This proportion was initially set at 50 per cent and then reduced to 40 per cent and finally to 20 per cent.

Spending was controlled by this approach. Certain types of expenditure could only be met from certain types of capital resources (borrowing approvals and the prescribed proportion of capital receipts). So a council had to make sure it had the right type of resources for the right type of spending.

Broadly speaking anything that was new or an improvement was prescribed (such as a new home, or central heating in a home that had no heating) and anything that was a replacement was non prescribed.

This process produced bizarre results. If windows needed replacement the council could replace them with the same type of window which could be paid for from the non-prescribed part (80 per cent) of capital receipts. If instead the council wanted to install an improvement (eg double glazing) this had to paid for from the prescribed part (20 per cent) of the capital receipt.

National Gross Social Housing Capital Investment up to 1994/95.
(All figures are at 1992/93 prices).

	1978/79 outturn £m	1988/89 outturn £m	1989/90 outturn £m	1990/91 outturn £m	1991/92 estim. outturn £m	1992/93 plans £m	1993/94 planned program £m	1994/95 planned program £m
Housing Corporation	1,085	1,096	1,197	1,326	1,791	2,620	2,039	1,880
Local Authority								
Credit Approvals	A new system came into force in 1991/92			1,688	1,649	1,536	1,385	1,320
Capital Grants				334	399	445	395	400
Own Sources				1,353	1,041	800	1,400	600
Total Local Authorities:	7,158	4,443	5,900	3,376	3,090	2,781	3,180	2,320
Total Social Housing:	8,243	5,539	7,097	4,702	4,881	5,401	5,219	4,200
Index: (1978/79 = 100)	100	67	86	57	59	66	63	51

1. Source: London Housing Unit.

Housing Revenue Accounts before 1990

Councils have had to keep a separate account to deal with housing finance for over 50 years. This is called the Housing Revenue Account (HRA). Like council finance in general, the nature of the HRA has changed depending on how central government has viewed local government and its roles.

Before April 1990 the income which was paid into the HRA included rents, government subsidy and, if the council wished, contributions from the *rates*. Expenditure from the HRA included the costs of servicing the debts on building and renovation (loan charges) and the day-to day housing running costs (management and maintenance). Some councils subsidised their rate funds from their housing revenue accounts.

rates p16

Housing subsidy: 1980/81 to 1989/90.

Year	Subsidy £m
1980/81	1,423
1981/82	881
1988/89	535
1989/90	636

During the 1980s the government set out to reduce the subsidy to local authority housing. By 1990 most councils did not receive government subsidy, and the total available nationally had been substantially reduced.

The method was simple. Councils that still received subsidy found that each year the government assumed that they had raised their rents by a particular amount each week and withdrew an equivalent amount of subsidy. Councils were still free to set their own rent levels but as a consequence either rents had to rise by more than the rate of inflation to cover this subsidy loss, rate fund contributions increased, or services were reduced.

Year	£/week
1981/82	2.95
1982/83	2.50
1983/84	0.85
1984/85	0.75
1985/86	0.60
1987/88	0.65
1988/89	1.60
1989/90	1.95

Under the old subsidy system, the government made the same rent increase assumption for each local authority. Since that system began in 1981/82, these are shown in the table.

NB. No figures are available for 1986/87

The current system

The way in which a council runs its housing finances is strictly controlled by law.

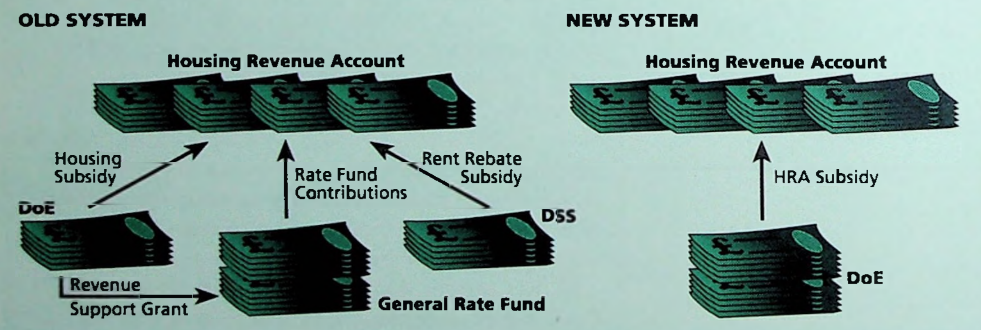
Councils are not allowed to put money from their *general fund* into the HRA. Nor is money allowed to flow from the HRA to the general fund. This is known as 'ring fencing', ie the money in the HRA has a 'fence' around it.

The only exception to this rule is where certain amenities are shared by the community as a whole, such as a community centre built on a housing estate; the maintenance of open space; or, the provision of a service to people who are homeless.

Ring fencing effectively means that the rents of council tenants have to meet all of the council's housing costs: salaries; repairs; interest on borrowed money; development; management etc. Housing benefit payments to council tenants are also included in the HRA.

The government has set out what can and cannot be charged to the HRA, although there are still some 'grey areas'.

Where the subsidies come from.



Housing subsidy

Most councils get help towards the cost of housing from the government, but this has been reduced over the last few years.

1990 also saw the introduction of a new system of Housing Subsidy. Under the old system only about a quarter of local authorities received housing subsidy. This was combined with the money the government was paying towards the housing benefits of council tenants to produce the new HRA subsidy. Now nearly all councils receive HRA subsidy but many council tenants, in effect, are paying some of the Housing Benefits of other council tenants.

To decide how much subsidy will be paid to a council the government uses a 'Notional Account', where the assumptions about rental income and management and maintenance costs are notional figures set each year by the government. When notional expenditure exceeds notional income, HRA subsidy is payable to meet the difference.

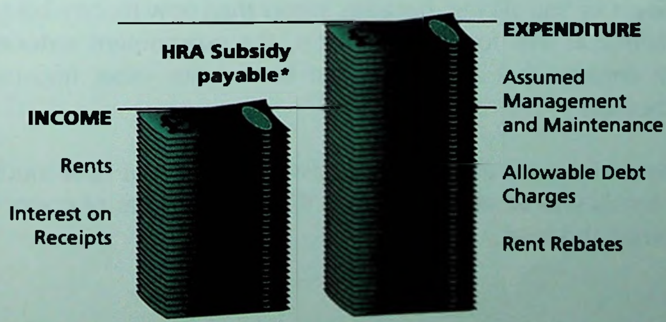
general fund p53

The effect of government policy on average rent levels from 1979-1992.

As at 1 April	£	At 1992 prices (£)
1979	6.40	16.36
1980	7.71	16.19
1981	11.43	21.42
1982	13.52	23.16
1983	14.05	23.14
1984	14.75	23.10
1985	15.63	22.89
1986	16.45	23.38
1987	17.24	23.51
1988	18.88	24.77
1989	20.76	25.21
1990	23.79	26.40
1991	27.26	28.43
1992	30.55	30.55

The assumptions the government makes about rental income have been linked to property values in the area. Since 1979 council rents have risen by nearly 100 per cent in real terms.

The formula used to work out housing subsidy.



***Subsidy is payable when notional expenditure exceeds notional income.**

Investment in housing – capital spending

In housing the major categories of capital investment are:

- the building of new homes;
- the renovation and improvement of council housing;
- leasing property and equipment;
- acquisition of housing and/or land;
- renovation grants to owner occupiers and landlords;
- loans to housing associations and first-time buyers.

Capital spending on housing can be paid for in the following ways:

- from borrowing approved by the government;
- from receipts (the money the council is allowed to use that it gets from selling houses or land);
- from revenues (the money it gets from rents);
- from grants.

Borrowing approvals

Borrowing approvals are the most important source of capital expenditure.

Each year the government decides how much local authorities will be allowed to borrow to invest in housing. This figure is reduced by an amount for special projects. This is known as 'top slicing' because, rather than new money being made available for these projects, the government reduces the amount that authorities can borrow for other housing schemes.

The government also makes an assumption about how much councils will be able to finance through the sales of council houses and land.

Each council is told its Annual Capital Guideline (ACG). From this is deducted an amount that assumes that the council will be able to use some of the receipts from selling houses and land (Receipts Taken Into Account – RTIA). This leaves the Basic Credit Approval (BCA) which is the amount that the council can borrow that year.

Funds for councils' capital spending on housing are only partly allocated according to need. In future, needs may not be taken into account at all.

Authorities can increase their borrowing but only if they bid for the borrowing approvals that are held back. Successful authorities then get extra borrowing approval in the form of a Supplementary Credit Approval (SCA).

Receipts

Councils are not allowed to spend all the money they get from selling council houses and land. 75 per cent of the receipts from council house sales have to be used – 'set aside' – and the government assumes they have been used to repay debt. Only the remaining 25 per cent – known as the 'useable' part – can be spent on any of the council's capital projects. 50 per cent is 'useable' in the case of receipts from the sale/lease of land.

Following the 1992 Autumn Statement, 100 per cent of most capital receipts received between 13 November 1992 and 31 December 1993 will be 100 per cent useable.

Revenues

There are no restrictions on councils increasing rents to pay for capital expenditure.

Grants

Government grants known as Specified Capital Grants (SCGs) are available for a number of purposes:

- Housing renovation grants (mandatory and discretionary improvement grants to private sector homes, disabled facilities grants, minor works grants, common parts grants);
- Repairs to properties designated as defective housing;
- Slum clearance;
- Area improvement.

The most significant of these is the SCG for renovation grants. Some renovation grants are mandatory. In order to get grant the council must use some of its capital resources. New regulations to be introduced in 1993/94 are likely to mean that for every £3 of grant the council claims it must spend £2 from its own borrowing or receipts. If expenditure on these grants is more than SCG + 66 per cent, the council will have its Basic Credit Approval reduced.

Example

Anytown Council has a BCA of £5.16m
and Specified Capital Grant of £1.17m.

It needs to use £0.78m of its own capital resources
in order to claim all £1.17m grant
giving a total of £1.95m.

If spending on grants is £2.1m
then its BCA is reduced to £5.01m.

Supplementary Credit Approvals (SCAs)

A council may be able to borrow more if the government thinks it qualifies for a specific scheme where the borrowing approval was *top sliced* from the national total such as *Estate Action,* Rural Housing or Homelessness.

All the resources for these schemes are provided by council borrowing not government grant. The council needs a Supplementary Credit Approval (SCA) in order to borrow. Councils have to bid for these SCAs and meet the criteria set out by the DoE.

top slicing p74
Estate Action p80

Urban Programme

Some capital projects on housing estates may be funded from urban programme grants which are available to councils that qualify for *Urban Programme* until 1992/93. Generally the government meets 75 per cent of the costs and the authority must find the remaining 25 per cent.

Housing Benefit

Through their rents, council tenants subsidise other council tenants on lower incomes.

In 1983 a national scheme to assist people on low incomes was introduced – the system of rent allowances and rent and rate rebates. Local councils were given responsibility for part of the scheme while the Department of Health and Social Security ran the rest.

Five years later, in 1988, the current housing benefit arrangements were introduced. Councils were given the responsibility of assessing all claims and paying benefits under regulations determined by government. The government does not meet all the costs and initially paid a fixed grant towards administration and 97 per cent of the benefits actually paid out while ratepayers had to meet the rest. However in 1990 the government cut its contribution towards actual payments further, reducing it to 95 per cent.

Councils have to meet 5 per cent of the housing benefits that are paid to private and housing association tenants, and council tax benefit payments (previously poll tax benefit) for the whole community. Rent levels in housing association properties, and the private rented sector can have a direct impact on a council's budget and on local tax levels.

This system does not apply to the actual housing benefit payments to council tenants which are dealt with in the ringfenced *housing revenue account*.

The higher the levels of poverty in an area the higher the contribution the local community has to make to the relief of poverty.

Nationally over 1.5 million council tenants are now paying some of the Housing Benefit for other council tenants through their rent.

Urban Programme p78
housing revenue account p72

Urban regeneration

A range of grants have been devised to address the problems faced by councils in inner city areas.

Since the late 1970s governments have sought to reverse the trends of decay at the heart of Britain's cities. Money has been channelled into special projects, often involving local authorities. The way in which some of these projects are funded has an impact on local government finance.

The overall aims of urban regeneration have been:

- to support and stimulate environmental renewal;
- to encourage new investment;
- to create new jobs;
- to give residents a better quality of life and new hope.

The main vehicle for supporting local government regeneration initiatives has been the Urban Programme. Under this programme 57 local authorities were invited to prepare schemes which, if approved, usually received 75 per cent grant from the government.

Grant at 75 per cent was available for capital and revenue spending, though over the years the balance has swung more towards capital schemes. For local authorities there is a practical dilemma associated with revenue schemes, for which grant is usually time-limited; at the end of the funding period the authority has to decide whether to stop the project or find 100 per cent of the funding from its own budget.

New Urban Programme bids are not being invited from 1993/94 onwards, although approval from previous years will continue. The funding is to be cut back substantially and replaced with a £20m Urban Partnership (UP) fund. The main criterion for the allocation of UP will be the extent to which the council is using its own capital receipts for relevant schemes.

A central theme of the government's urban regeneration policy has been to secure the involvement of private sector developers and funding from private sources. Central and local government finance has therefore been used to 'lever in' funding from other sources.

Some programmes involve councils competing with each other for funds – others target money straight at the private sector.

In 1991 the government launched its City Challenge initiative as a national competition to spur local authorities to put forward imaginative schemes and create local partnerships between public and private sectors. Money for City Challenge comes from within existing central resources for the Urban Programme and other initiatives.

Of the 57 urban programme authorities 31 have been selected for City Challenge. Each area 'wins' grants and borrowing approvals of £7.5m per year for five years to support social, employment and development projects within a tightly defined part of the local authority area. City Challenge will not be repeated in 1993.

Support programmes for urban regeneration have changed frequently over the years. A large number of government departments and other agencies are involved; not all programmes have an impact on the finance of local government – and many programmes are implemented by other agencies without the involvement of the local authority.

Many local authorities also provide support for urban regeneration in addition to the programmes which are sponsored by the government. Funding for these initiatives comes from the authority's main programmes, or ordinary budgets, and does not attract a higher level of government funding.

The main programmes and agencies involved in urban regeneration initiatives are:

Urban Development Corporations

Institutions with responsibility for regeneration in their areas which assume statutory powers from the local authority. Directly funded by central government (see table). There are a total of 12 UDCs.

City Grant

Provides development grants direct to the private sector from the government. Formerly known as Urban Regeneration Grant and Urban Development Grant, when it had been administered via local authorities.

Derelict Land Grant

Available to local authorities, other public bodies, private firms and voluntary organisations to bring derelict land into use.

Enterprise Zones and Simplified Planning Zones

Intended to stimulate growth they provide a combination of relaxed planning controls and tax incentives.

Capital Partnership

In 1992, the government announced it was to 'top slice' about £200m from the credit approvals and government grants that would otherwise be available to local authorities, along with a further £400m that would have been allocated to Housing Associations through Housing Association Grant.

These resources are to be made available through Capital Partnership schemes.

Housing Partnership applied to the £115m Estate Action borrowing approvals for new schemes in 1993/94 and to the £400m allocated for 1993/94 by the Housing Corporation.

£30m was earmarked specifically for authorities that have disposed of all their housing stock.

The extent to which an individual authority financed the project from capital receipts was a criterion for 1993/94 Estate Action schemes and the extent to which a council could provide contributions towards the cost of HA schemes influenced the allocations made by the Housing Corporation.

The Urban Programme is being abandoned while a limited sum of £20m will be distributed through Urban Partnership. This will take into account the extent to which an individual authority is prepared to finance a project from capital receipts.

In addition, two other 'partnerships' were announced in November 1992: **Environmental Partnership** and **Countryside Partnership**.

Safer Cities Project

Financial support to local crime prevention initiatives that bring together the local authority, police, probation service, voluntary bodies and local businesses. Funding is from the Home Office.

Urban Regeneration Agency

Proposed in the Housing and Urban Development Bill, published by the government in October 1992. It is intended to start work towards the end of 1993 and to take over the Department of the Environment's Derelict Land and City Grant programmes.

City Action Teams

CATs are a government initiative to ensure co-ordination at local level between inner city programmes and initiatives of different government departments. Task Forces are more local short term government initiatives to stimulate local enterprise and help train local people for new jobs.

Further information on urban regeneration initiatives can be obtained from *Urban Trends I: A report on Britain's deprived Urban Areas,* available from The Policy Studies Institute.

Central government expenditure on inner cities: England.

	1986/87 £m	1987/88 £m	1988/89 £m	1989/90 £m	1990/91 £m	1991/92[1] £m
Urban Programme	236.8	245.6	224.3	222.7	225.8	242.4
City Grants	23.9	26.8	27.8	39.1	45.4	55.5
Derelict Land	78.1	76.5	67.8	54.0	61.7	75.6
Urban Development Corporations	89.3	133.5	234.4	436.0	553.6	501.5
City Action Teams	Nil	Nil	Nil	4.0	7.7	8.1
Other[2]	14.2	7.9	8.3	7.0	–2.0	0.8
Total:	**442.4**	**490.3**	**562.6**	**762.8**	**892.2**	**883.8**
of which:						
Central government's own expenditure	95.3	142.7	252.2	463.8	601.8	568.0
Central government's support to LAs						
– Grant	285.8	290.1	252.6	241.6	242.6	260.5
– Credit approvals	61.4	57.7	57.8	57.3	50.9	55.3

Source: Department of the Environment *Annual Report,* 1992.

1. Estimates. 2. Research, transitional grants and consolidated fund extra receipts.

Government grants to Urban Development Corporations: England.

UDC	1981/82 £m	1986/87 £m	1988/89 £m	1989/90 £m	1990/91 £m	1991/92 £m
London Docklands	30.2	64.9	116.41	255.8	333.0	248.7
Merseyside	6.1	27.6	20.5	23.0	24.0	28.1
Black Country	Nil	Nil	23.0	38.0	32.0	36.4
Teesside	Nil	Nil	20.7	36.0	42.1	53.1
Trafford Park	Nil	Nil	15.5	13.3	24.2	28.1
Tyne and Wear	Nil	Nil	24.0	35.8	37.8	37.5
Bristol	Nil	Nil	0.3	5.0	13.4	27.1
Central Manchester	Nil	Nil	2.5	11.0	14.0	16.0
Leeds	Nil	Nil	2.7	8.8	14.0	12.6
Sheffield	Nil	Nil	8.0	9.5	19.0	13.3

Source: *Hansard,* Written Answers, 27 January 1992, columns 411-2.

Information for both tables from the Policy Studies Institute.

Funding schools

Changes to the way schools are funded mean that schools have more control over their own spending.

Until 1990 decisions about spending in schools were largely taken by the education authority which was the local county, metropolitan district council, Inner London Education Authority (ILEA) or outer London borough.

A new way of funding schools called Local Management of Schools (LMS) was gradually introduced from 1990.

Under the new system, schools are still funded by councils but schools have a great deal of day to day control over their own spending. The council distributes money to schools on the basis of a formula which must be approved by ministers.

The authority has to calculate a General Schools Budget (GSB) which comprises of all the council's spending on schools. This will include such items as administration, home to school transport, school meals and interest on loans.

From this budget, the authority deducts certain items – 'mandatory exceptions' (such as interest payments, spending supported by government grants) – and may deduct other 'transitional items' – such as cleaning school buildings which it will be responsible for centrally. The remainder, called the Aggregate Schools Budget (ASB) is delegated to individual schools according to the formula agreed with the government.

In 1992 a minimum of 75 per cent of the ASB must be allocated on the basis of the numbers and ages of pupils. This will increase to 80 per cent in April 1993 except for the 12 inner London councils where the deadline is 1 April 1995.

The government has recently introduced extra criteria for the funding of schools – the potential schools budget (PSB). This is the general schools budget less capital expenditure and interest payments, home to school transport, school meals, the council contribution to specific grants, and certain 'exceptions'.

Councils must delegate 85 per cent of the PSB by April 1993 (April 1995 in Inner London).

School governing bodies and head teachers now have a great deal of discretion on how to spend the school's budget.

Grant Maintained Schools

Schools which opt-out of council control are funded directly by the government.

Schools that choose to opt out of local authority control are known as grant maintained (GM) and are funded by central government. Government deducts the grant it pays the schools from the RSG it pays to the local council. The way these figures are calculated can result in less funding being available for the schools that remain.

(eg a council delegates 85 per cent of the budget to the school – a grant maintained school used to get that 85 per cent + a further 16 per cent. The extra 1 per cent was at the expense of other schools).

Each GM school receives an Annual Maintenance Grant (AMG), which is made up of three elements:

1. the budget it would have had using the Local Management of Schools (LMS) formula that is being used locally;

2. an extra amount called the 'standard add on' to reflect the costs that were previously being met centrally by the council. The extra amount was originally set at an additional 16 per cent, but this was reduced in 1992/93 to 15 per cent.

If more than 15 per cent of the primary or secondary schools in a local authority area have become Grant Maintained the 'standard add on' can be replaced at the request of either the school or the authority by a 'non standard add on' which represents the actual expenditure the authority would have incurred centrally for that school.

3. an amount for school meals to take account of pupils entitled to free meals and extra subsidy that the council provides towards meals for other pupils.

The government reduces the amount the local council receives in grant by an equal amount.

Schools that go grant maintained can apply for transitional and single purpose grants from the government.

By July 1992 less than 300 of the 25,000 schools in England and Wales had become Grant Maintained. GM schools are concentrated in a number of areas. In England, in 51 of the 109 local authorities there are no GM schools, and in Wales 6 of the 8 local authorities have no GM schools.

The number of Grant Maintained schools in each English education authority (May 1992).

Authorities	Number of GM schools
Kent	33
Lincolnshire	20
Essex	16
Surrey	14
Norfolk	12
Gloucestershire	11
Bromley	10
Berkshire, Hertfordshire, Hillingdon	8
Northamptonshire	7
Cumbria, Dorset, Hampshire, Lancashire, Warwickshire	6
Ealing, Sutton	5
Birmingham, Buckinghamshire, Cambridgeshire, Derbyshire, Wandsworth	4
Bedfordshire, Calderdale	3
Avon, Barnet, Bexley, Bolton, Brent, Cheshire, Kirklees, Somerset, Walsall, Wiltshire, Wolverhampton	2
Bradford, Croydon, Devon, Dudley, Hammersmith and Fulham, Humberside, Kensington and Chelsea, Lambeth, Leicestershire, Liverpool, Newham, Nottinghamshire, Rochdale, Sandwell, Sheffield, Shropshire, Southwark, Tameside, Tower Hamlets, Waltham Forest	1

In 51 of the 109 education authorities in England there are no opted out schools.

Source: *Hansard,* Written Answers, 21 May 1992.

Many schools have opted out to avoid the effect of reorganisation. This causes great problems for councils trying to run an efficient schools system.

There are two main reasons why schools decide to go Grant Maintained.

Many of them did so because they faced closure or amalgamation under plans announced by the local council, and 'opting out' was a way of avoiding it. Figures published in March 1992 by Local Schools Information showed that in 101 of the 413 schools holding ballots and in 76 of the schools which had voted to become Grant Maintained, the motive had been to avoid the effect of reorganisation notices which a local authority must issue in order to close or amalgamate a school.

Councils with low levels of expenditure on Education have a disproportionately high number of GM schools. An analysis of the ballots that were not motivated by avoiding reorganisation found that 96 were in the lowest spending 25 LEAs, whilst 12 were in the highest spending 25 LEAs. 53 were in Kent and Lincolnshire who are in the bottom 3 for spending on education.

Future funding for schools

The government has plans for a new way of funding schools.

How will schools be funded in the future? In July 1992 the government published its White Paper on Education – Choice and Diversity – and announced its plans for funding schools in the future.

It suggests that the government is planning to reduce the grants that GM schools initially get.

"The expectation is that, as schools get more experience of local management of schools, they will need less financial help in the transition to GM status." (Para 13.11)

Where there are no or very few GM schools the funding arrangements will develop as set out earlier with a greater share of the potential schools budget being delegated to schools, and a higher percentage being distributed on the basis of pupil numbers and ages.

However when there are "sufficient primary or secondary schools to justify it" (Para 13.8) the government intends to introduce in each local area a Common Funding Formula (CFF) for GM schools. It is envisaged that these new Common Funding Formulas will start to be introduced in 1994/95.

The White Paper says "The formula will distribute between GM schools in an LEA area a total based on the relevant share of the government's Standard Spending Assessment (SSA) for the LEA concerned." (Para 13.8) It goes on "The CFF will secure that over time schools...will be funded...from the government's own view of the appropriate level of spending in an area." (Para 13.9)

This proposal has major implications.

The Education SSA consists of 5 sub blocks (Under 5s, Primary, Secondary, Post 16, and Other). Although a council may be spending at SSA the distribution of resources between nursery, primary, secondary, post 16 and other education may not reflect the distribution of the SSA between the various sub blocks.

Consider the following example of Anyshire whose secondary schools are all 11-16.

Anyshire

	Education SSA	Actual Expenditure
Primary	62,000,000	64,000,000
Secondary	70,000,000	72,500,000
Under 5	7,000,000	5,000,000
Post 16	35,000,000	34,000,000
Other	8,000,000	6,500,000
Total	**182,000,000**	**182,000,000**

If a Common Funding Formula had been introduced for secondary schools in 1992/93 based on SSAs it would have resulted in a £2.5m reduction in spending on secondary education in this authority.

Asset Disposal

It appears that another function of the Funding Agency for Schools will be to rationalise educational provision. The Audit Commission estimates there are 1,500,000 surplus school places and the White Paper says "The legislation will ensure that...a proportion of the proceeds of a discontinued ex county GM school will go to central government, where appropriate."

Glossary

Aggregate External Finance (AEF) The total amount of money the government contributes towards local government finance.

Aggregate Schools Budget That part of a school's budget which is delegated to the school from the local education authority.

Annual Capital Guideline (ACG) The amount the government thinks it appropriate for a council to spend on capital projects.

ACC Association of County Councils

ADC Association of District Councils

ALA Association of London Authorities

AMA Association of Metropolitan Authorities

Annual Maintenance Grant A grant paid by the government to grant maintained (opted out) schools.

Audit Commission The Audit Commission was established by the Local Government Finance Act 1982. It has responsibility for the external audit of all local authorities. It can either commission district auditors, who are employed by the commission, or firms of accountants.

Balances An authority's 'savings'. The accumulated surplus of income over expenditure.

Basic Credit Approval (BCA) Permission from the Secretary of State to use credit arrangements (including borrowing, leasing, deferred purchase) to finance capital expenditure.

Block grant The pre–1990 method by which the government distributed grant to councils.

Capital receipts Proceeds from the sale/long lease of fixed assets.

Capital Expenditure Spending which produces an asset, like a house or a school.

Capping A device by which the government restricts council spending. The government has the powers to put a limit – set a cap – on the size of any council's budget.

City Challenge A competition in which local authorities bid for funds to develop schemes to improve inner city areas. These must be in partnership with the private sector. The money available for these schemes is top sliced from existing budgets.

Collection Fund Part of a council's accounting procedure. A separate fund kept by most councils into which council tax is paid.

CoSLA Convention of Scottish Local Authorities

Council tax The local tax which pays for a proportion of council services. It replaced the poll tax in April 1993.

Council tax for standard spending Central government's view of how much council tax bills would need to be to fund the level of service central government thinks appropriate, assuming all councils spent at that level.

Debt Charges Payments made from the revenue account of a local authority to cover the interest on and repayment of loans raised for capital expenditure.

DoE Department of the Environment

Gearing Increases or reductions in local taxes which result from grant bearing no relation to need.

General Fund The main revenue account of a local authority from which revenue payments are made to meet the costs of providing services.

General Schools Budget A council's total spending on schools.

Grant Maintained (GM) School A school which has 'opted out' of local education authority control and is funded directly by central government.

Housing benefit A scheme to assist people on low incomes with their rent.

Housing Investment Programme (HIP) Annual submissions made by local housing authorities to the Department of the Environment which detail their capital expenditure plans and the strategy proposed to meet local housing needs.

Housing Revenue Account (HRA) The account councils have to run to deal with their housing finance.

Housing subsidy Government grant payable to housing authorities towards the cost of local authority housing provision.

LBA London Boroughs Association.

Local Management of Schools (LMS) The method of funding schools introduced in 1990 whereby councils delegate much of a school's budget to the school.

National Non-Domestic Rate (NNDR) Rates paid by businesses. The rate poundage is set by central government but collected by councils who pay the money into a 'pool'. It is then distributed to councils according to the size of their population.

Other services block Part of the system of Standard Spending Assessments. This block is particularly important to district councils as it determines most of their grant.

Poll tax A system of local taxation introduced in 1990 and replaced in 1993 with the council tax. A flat rate tax which bore no relation to ability to pay.

Public Works Loan Board A government agency which provides long and short term loans to local authorities at interest rates generally lower than the private sector and only slightly higher than those at which the government itself can borrow.

Potential Schools Budget General schools budget excluding a number of items.

Rates Pre–poll tax property tax set and raised locally to pay some of the costs of local services.

Recharges Costs of some services provided by one council department for another and charged for.

Receipts Taken in Account (RTIA) The amount of useable capital receipts that the government assumes local authorities nationally and individually will have at their disposal.

Reserves An authority's savings.

Revenue spending Spending on the day–to–day running of the council.

Revenue Support Grant (RSG) Government revenue grant paid to local authorities.

Standard Spending Assessment (SSA) The amount the government thinks a local authority should spend in order to provide a standard level of service.

Specified Capital Grant (SCG)
Grants, contributions and subsidies paid to local authorities for
- contributions towards expenditure in renewal areas,
- contributions towards expenditure on improvement grants,
- slum clearance subsidy,
- contributions on assistance to owners of defective housing.

Specific Grant
Government grants to local authorities for specific projects or services.

Supplementary Credit Approval (SCA)
Extra borrowing allowed by the government for specific schemes.

Top slicing
Money held back from existing national budgets by the government to fund special projects.

Transitional reduction
A means of limiting the increase in household bills from poll tax to council tax.

Transitional relief
A means of limiting the increase in individuals' bills from rates to poll tax.

Universal Capping
The term applied to the government's powers to 'cap' the budgets of every council in the country.

Urban Programme
The main vehicle for supporting local government initiatives in improving city areas. New urban programme bids are not being invited for 1993/94.

LGIU

The Local Government Information Unit is an independent research and information organisation supported by 90 councils and eight national trade unions.

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